BRITISH BANKS AND THE FINANCE OF INDUSTRY

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LONDON
P. S. KING & SON, LTD.,
ORCHARD HOUSE, WESTMINSTER
1931

INTRODUCTION

THERE have been many occasions during the comparatively recent history of this country when the nation has had to face conditions of seemingly impenetrable gloom in her industry and trade. Likewise there have been numerous occasions on which our monetary and banking policy has been the subject of widespread and prolonged controversy. But it is likely that the conditions of depression now prevailing, and the monetary controversy now so much in evidence, are far more acute than they have ever been previously.

The depression is more severe than any of its predecessors because of the unprecedented amount of capital and the unprecedented number of workers which are unfortunately involved. And the controversy surrounding monetary and banking policy is for this reason, if for no other, at least as acute as it has ever been before. Now, as in the past, that policy has been widely blamed for the nation's ills; and now, as in the past, the main burden of complaint is that industry and employment have suffered and are suffering as a direct result of our system of currency and credit control.

The truth, though only too few realise it, is that the nation is now faced with an economic upheaval as radical as the Industrial Revolution of the early nineteenth century. Its effects are already being felt in the workshop and in the board-room, in the cottage and in the mansion. Hence, its problems cannot but form the subject of daily inquiry and constant discussion.

My aim in this survey is to present a comprehensive account of the controversy and to attempt to throw some

light on a problem which is unquestionably of the most vital importance to the nation and to the individual. With this object, I have quoted extensively from the expressed views of recognised leaders of thought in business, in politics and in academic spheres. I venture to hope that by so doing I shall have made this work of interest and use not only to those who, having the interests of this great country at heart, wish to acquaint themselves with the measure of her present difficulties, but also to those whose business it may be in the future to open a way out of the existing impasse.

S. E. T.

November 1930.

CONTENTS

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CHAPTER I

ASPECTS OF THE PROBLEM

THE years 1929 and 1930 will be memorable in the history of banking and finance in this country for the attention focused on the relation between our banking and monetary policy and the unprecedented conditions of depression which have prevailed since the post-War boom of 1920 in our leading industries. The effects of the depression have necessarily permeated throughout every branch of economic activity, but they have been especially marked in the five basic groups, coal, iron and steel, cotton, wool, and agriculture.

COAL, IRON AND STEEL, COTTON AND WOOL.

An examination of the present economic position of the first four of these industries shows that they all possess certain features in common and that each is faced with much the same fundamental difficulties. All are old-established industries strongly imbued with an individualist tradition, and organised according to the characteristic form of nineteenth-century manufacture into a large number of comparatively small units. All of them work largely for export, and all have suffered severely as a result of the contraction of overseas markets for their products—a contraction which had already set in before the Great War, but which has been rapidly and distressingly accentuated since. Each of these industries, too, employs a large amount of fixed plant in the form of specialised machinery whose efficiency standard has

seemingly not kept pace with that set by the rapidly advancing industries of other leading countries. Then, all of these "staple trades," as they are sometimes called, have been sadly hit by reason of the fact that, having been rapidly expanded to meet the artificial conditions of the post-War boom, they found themselves during the succeeding years of depression with a producing capacity greatly in excess of market requirements.

Finally, each of these industries has suffered, in greater or less degree, in consequence of the development by other countries of their own sources of supply. To a great extent we have been hoist with our own petard. Machinery supplied by the British manufacturer has been used to produce goods which have ousted him from his former markets; our hard-won experience and our great technical discoveries have been placed at the world's disposal, and British manufactured goods, no longer enjoying their early monopoly, have had to compete with the products of large and flourishing industries in Europe and in America.

Up to the outbreak of the Great War, a number of factors—and especially the expansion of world trade induced by the upward trend of gold prices in the decade before 1914—brought to this country a steady, though gradual, increase in prosperity. But then came the War, utterly demoralising that world trade on which Britain is so vitally dependent, and hastening that revolutionary change which had already begun. For economic and strategic purposes, belligerent nations were forced to re-organise their existing industries on nationalist lines, and to develop new industries in the interests of self-sufficiency. Markets in which we were once supreme gradually slipped from our grasp, and nations which at one time looked to us for supplies successfully challenged our products on their own home ground. So we find that, although the world is to-day buying more manufactured goods than it ever did in pre-War days,[1] yet, in terms of 1913 price-levels, Great Britain's share of the world *export* trade fell from 13·9 per cent. in 1913 to 11·4 per cent. in

[1] In 1928 the Economic Organisation of the League of Nations estimated the volume of world trade to be 20 per cent. more than the pre-War figure.

1927 and to approximately 11·0 per cent. in 1928,[1] while the quantum of British export trade in 1929 was only 82 per cent. of its level in 1913. Whereas in 1913 the United States' export of manufactures was little more than half that of Great Britain, in 1928 the value of exports from the United States exceeded the value from this country. In certain markets, especially in South America and the Far East, American competition has led to a complete reversal of the position as between our country and the United States, and the rivalry is even yet far from ended. France, since the War, has nearly doubled the pre-War value of her export trade, Japan has increased her figures by about 75 per cent., and vigorous progress has been made also by the small industrial countries—Belgium, Sweden and Czecho-Slovakia. Only within the British Empire does British trade show real improvement on the pre-War position. In 1911–13 the Empire countries absorbed, on average, 36·1 per cent. of the total exports from this country; in 1927–28 this figure had risen to 45·7 per cent.,[2] an improvement which is happily being maintained.

The effect of this competition from overseas has been accentuated by violent competition in the home market induced by the existence of excess productive capacity due to the multiplicity of relatively small concerns. This, combined with the anxiety to meet heavy prior charges in the form of interest on debentures and bank loans, has necessarily exerted an almost irresistible pressure towards the definitely disastrous practice of "weak selling," with its evil consequences on both the finances and future life of the individual units.

Apart from such general factors, a number of special factors have operated to the disadvantage of the respective industries. The coal-mining industry has been paralysed by the disastrous effects of labour disputes and strikes. The shipbuilding section of the iron and steel industry received a severe blow from the cessation of armament construction throughout the world. The cotton industry has

[1] "The Growing Dependence of British Industry upon Empire Markets," p. 6 (E. M. B. 23).
[2] *Ibid.*, p. 8.

sustained one blow after another: loss of its markets in the Far East as a result of the thorough disorganisation of trade during the Great War, currency difficulties, tariff barriers, political unrest in India and civil war in China. The woollen industry has suffered likewise, its difficulties having been accentuated by the suicidal labour dispute which has been dragging on for months since the spring of 1930.

AGRICULTURE.

Agriculture, once our leading industry, has not only suffered severely as a result of the prevailing depression, but has also been detrimentally affected by a number of special factors. The peculiar position of this great industry is examined in Chapter VII, and at this point we may merely observe that the crisis therein is such as to occasion the most widespread concern both to those who are immediately affected and to the nation at large.

THE SLOWING-UP OF PRODUCTION.

So far as our manufacturing and coal-mining industries are concerned, the general result of the conditions indicated is that quite a number of plants and factories have had to be closed down, whilst many others have had to work organised short time. Concerns which for years held a leading place in the world's industrial markets, and whose names have long been household words in this country, have been kept going largely by the efforts of creditors, and especially of the banks, which in many cases have had to face the realisation that the break-up value of the undertakings was unlikely to meet even their secured claims. Naturally, the collapse of these leading industries has seriously affected most other branches of our economic life, and scarcely any trade, occupation or industry can be said to be free from the adverse effects of a greatly diminished demand for its products and services.

The truth of this statement may be tested by reference to the following figures of the Board of Trade Indexes of Production in the United Kingdom for a number of leading industries.

INDEX OF PRODUCTION IN THE UNITED KINGDOM.
(1928–30: 1924 = 100.)

Group.	June Qrtr., 1930.	March Qrtr., 1930.	June Qrtr., 1929.	Year 1929.	Year 1928.
1. Mines and quarries	87·4	102·0	92·6	96·8	89·2
2. Iron and steel and manufactures thereof	95·5	113·8	117·8	114·0	102·3
3. Non-ferrous metals	123·7	105·7	128·7	120·5	119·3
4. Engineering and shipbuilding	124·3	125·5	124·7	121·0	113·1
5. Textiles	78·4	92·4	99·8	98·5	99·9
6. Chemical and allied trades	104·9	104·9	114·6	115·8	110·3
7. Paper and printing	(a)	(a)	(a)	(a)	(a)
8. Leather and boots and shoes	104·5	108·5	100·7	98·5	102·0
9. Food, drink, and tobacco	104·9	96·9	109·0	106·0	101·9
10. Gas and electricity	(a)	(a)	(a)	135·8	126·0
Total of manufacturing industries (2-10) [1]	107·5	113·2	116·9	115·5	109·4
Total of all groups (1–10) [1]	103·4	110·9	112·0	111·8	105·5

[1] Including also various industries not specified above.
(a) Information incomplete.

It will be observed that the estimated total production of all the specified groups for the quarter ended June, 1930, showed a decrease of 8·6 per cent. on the figure for the corresponding period of 1929, although in the latter year the increase on the figures for 1928 had given rise to the hope that industry in this country was on the road towards recovery.

THE BURDEN OF UNEMPLOYMENT.

In no direction are the consequences of the depression more sadly evidenced than in the unprecedented burden of unemployment which the nation has had to bear for some years past. Up to the time of writing (October, 1930), the number of people unemployed has shown signs of persistent increase rather than of abatement. For years past over a million workers have been unable to find employment and have had to be supported on the "dole," and we approach the winter of 1930 with the number of unemployed already well over the two million mark.

Unhappily, the sorry tale of depression and unemployment covers practically the whole of industry, and though it is most marked in the basic trades already mentioned, a most significant symptom of the malady is that it is in no sense localised or delimited. It affects both productive and distributive trades, both sheltered and unsheltered groups, and many thousands of " black-coated " workers as well as the lower grades of labour. It is clear, therefore that the nation is faced with a vital economic reaction from which no one group or section of the community can isolate itself, and the very magnitude of the problem makes its solution all the more difficult.

The Immobility of Labour.

The hardships have been accentuated so far as the workers are concerned because it has been found almost impossible to transfer them from the depressed industries and areas to more prosperous trades. Labour in this country apparently suffers from " incurable immobility," which permits a serious shortage of workers in certain industries to coexist with widespread unemployment in others. This position has not been assisted, to say the least, by the policy of organised labour in maintaining that a displaced worker must be found new work in the trade to which he has been brought up, and that, if such work is not immediately available then he must be supported at the expense of the community until suitable work is found for him, or, alternatively, until he is trained for another job. The acceptance of this idea underlies our existing scheme of unemployment insurance, but it is now recognised that the matter is one which cannot be allowed to rest at that stage. The problem of the immobility of labour, so much accentuated by that minute specialisation which is a feature of the modern industrial system, must be faced and systematically tackled, and already, with Government assistance, workers are being moved from one part of the country to another and are being trained in new trades where there is a greater demand for labour. Unhappily, the problem has been rendered the more difficult by the marked falling off in emigration during recent years, with

the result that many workers who would normally have gone abroad have been thrown on an already saturated labour market.[1]

International Aspect of the Depression.

While the position in this country is, for a variety of special reasons, rather worse than it is in any other leading country, some degree of consolation is to be found in the fact—stressed by Mr. Philip Snowden at the 1930 Annual Dinner of the British Bankers' Association—that the present conditions of depression are by no means confined to Great Britain. On the contrary, they are only too obviously international in character, and other leading countries, after a period of prosperity more prolonged than ours, are now undergoing a similar ordeal. This is borne out by the following figures of industrial production in four leading countries, from which it will be seen that, although the years 1927–29 showed a fair rate of improvement on the years 1924–26, the slowing down of industrial activity was especially marked during the latter months of 1929 and the first half of 1930.

In Germany especially, industrial activity has fallen to a very low ebb—the index of production showing a drop of over 16 per cent. between June, 1929, and June, 1930, as compared with a drop of only 8 per cent. for the United Kingdom during the same period. Moreover, unemployment in that country is even more marked than it is here, showing an increase of over a million in the summer of 1930 as compared with the summer of 1929. In Belgium and Italy conditions are far from satisfactory, while France, in spite of temporary advantages resulting from the excessive devaluation of her currency, is also entering upon a downward movement in industrial production. In May, 1930, it was reported that in Japan, during the preceding month of April, 935 factories had been closed in Tokyo alone. Even the United States, with its enormous wealth and post-War

[1] In the House of Commons on 25th March, 1929, Sir Arthur Steel-Maitland (the then Minister of Labour) stated that the two chief causes of unemployment were the falling off in emigration, which had thrown 300,000 to 400,000 extra workpeople on to the labour market, and the decline in our foreign trade, which was responsible for 700,000 or 800,000.

development, has several millions [1] unemployed, and conditions there show small promise of early improvement.

YEARLY INDEXES OF PRODUCTION FOR FOUR LEADING COUNTRIES.
(1924–29 : 1928 = 100.)

Year.	(a) Germany.	(b) U.S.A.	(c) France.	(d) U.K.
1924	69·0	85·6	85·8	94·8
1925	83·2	93·7	85·0	—
1926	78·9	97·3	99·2	—
1927	100·1	95·5	86·6	101·2
1928	100·0	100·0	100·0	100
1929	101·7	106·3	109·4	105·9

MONTHLY INDEXES OF PRODUCTION FOR FOUR LEADING COUNTRIES.
(1929 and 1930 : 1928 = 100.)

Month.	(a) Germany.	(b) U.S.A.	(c) France.	(d) U.K. (quarterly).
1929–				
June	109·8	114·4	111·0	106·2
July	104·7	111·7	109·4	
Aug.	103·3	110·8	109·4	
Sept.	101·8	109·0	108·7	104·9
Oct.	101·4	105·4	111·0	
Nov.	101·4	95·5	112·6	
Dec.	96·0	89·2	113·4	107·9
1930—				
Jan.	94·8	93·7	113·4	
Feb.	92·9	96·4	112·6	
March	92·5	93·7	113·4	105·1
April	91·5	95·5	113·4	
May	90·8	93·7	113·4	
June	85·7	90·1	113·4	98·0
July	84·5	85·6	111·0	

(a) Index of Institüt für Konjunkturforschung.
(b) Federal Reserve Board Index.
(c) Statistique Générale Index.
(d) Board of Trade Index.

The extent of the collapse in world commercial activity during 1930 may be judged also from the following indexes of the values of exports for a number of important countries during the period 1927–30.[2]

[1] No dependable figures are available as to the number of unemployed in the United States, and estimates vary from four millions upwards to over six-and-a-half millions.

[2] From the *Financial News*, "Comparative Exports," 23.7.30.

INDEXES OF VALUES OF EXPORTS OF SEVEN LEADING COUNTRIES.
Monthly Averages (1927 = 100.)

Year.	United Kingdom.	United States.	Germany.	France.	Belgium.	Italy.	Denmark.
	£ m.	$ m.	Mks. m.	Frs. m.	Frs. m.	Lire. m.	Kr. m.
1927 .	100	100	100	100	100	100	100
1928 .	102	105·8	113·2	93·7	110·1	107·6	103·1
1929 .	102·8	108·3	122·7	91·1	121·4	104·6	107·7
1930 . (4 months)	88·6	90·1	110·6	85·2	117	90·5	109·9

From these indexes it will be observed that the decline in the trade of the United Kingdom during the first four months of 1930 was greater than that of any country other than the United States (where conditions were affected by the Wall Street crash), but the figures bear out the contention that the depression is world-wide and that "Great Britain can no longer be regarded as a sick member of a healthy family: the whole family of nations is economically sick. . . ." [1]

Clearly we have to recognise that, apart from the Great War and its aftermath, the present age is one of economic transition not only in Great Britain but also in the world as a whole. "Such a period must inevitably give rise to many difficulties, and must be productive of internal stresses in a country whose industrial system is the oldest in the modern world. For good or ill, the world conditions under which that system reached its maturity are slowly but surely being modified. If this country is to maintain and enhance its standard of living by continuing to play a leading rôle in the world's trade, it must be prepared to move in conformity with world conditions. The first factor in the process of adaptation must be a frank recognition of conditions as they now exist; the second, a conscientious endeavour to discover their detailed implications; the third, the framing of a concrete policy by every industry to carry out whatever measures may be found to be necessary." [2]

Is There a Common Cause?

The conditions, as Mr. Snowden and others have suggested, seem to point to this, that there must be one common cause

[1] *Westminster Bank Review*, July, 1930.
[2] Mr. H. C. Tennant, at the Westminster Bank Annual General Meeting, 1930.

which is largely responsible for the conditions. But though a common cause may be at the root of the trouble, there is scarcely a vestige of common agreement as to what that cause is. One school of thought bluntly attributes the world's present economic distress to *over-production*—that remarkable state in which, as Gide says, man must be imagined to stand, without appetite, before a multitude of good things. Another school, backed by equal authority and equally strong arguments, prefers to speak of *under-consumption*, whereby is implied, not lack of appetite, but lack of purchasing power, traceable to one or some of a number of factors: faulty credit structure, unbalanced distribution of the product of industry, the high level of retail as compared with wholesale prices, and the uneconomic distribution of the world's gold stocks.

There certainly is evidence to support the arguments of the over-productionists. A Memorandum on Production and Trade published by the League of Nations in August, 1930, showed that while in 1928 the population of the world was estimated to be only 10 per cent. greater than in 1913, the production of foodstuffs and raw materials had increased in the same period by about 25 per cent. It cannot be contended that the general standard of living rose in the period concerned to the extent necessary to counteract the increase in production, while the fact has to be faced that during recent years there has been a vast accumulation of stocks of raw materials and a rapid fall in commodity values.

Whichever of these views we adopt—over-production or under-consumption—we are bound to acknowledge that the effect has been a tragic collapse in wholesale prices, which, with the concomitant lag between wholesale and retail prices, is without doubt the cause of the world's present difficulties. Falling prices, of course, are not only detrimental to the stability of business conditions, but are also directly inimical to all forms of productive and commercial activity.

The question of the effect of the world-wide collapse in prices during recent years is examined in our final chapter, but here we may observe that the decline in wholesale prices

in Britain has been far more severe than in other countries. During 1928, for instance, as against a decline in world prices of about 4 per cent., British wholesale prices fell by 14·5 per cent., *i.e.* by more than three times as much. Likewise, the maximum fall of 8·8 per cent. for Great Britain during 1929 compares unfavourably with the fall of 4·9 per cent. in the U.S.A. and of 7·1 per cent. in Germany. Concurrently with the universal fall in commodity prices there has been a marked business recession and a growth of unemployment throughout the world, and, though Britain has suffered severely, it still remains to be seen whether she will ultimately be any worse-off than other countries. So far, it seems clear that the adverse effects of the price collapse have been accentuated in this country, as is explained hereafter, by the fact that wage rates, taxation and other items in costs have remained practically stationary, and in some cases have even increased. Indeed, taxation has become so obviously burdensome to industry, both directly and indirectly, that measures have had to be taken by the Central Government to provide some degree of relief, as, for example, by provisions for the de-rating of industry.

Are our Banks to Blame?

It is scarcely to be wondered at that the cause or causes of the present industrial depression should have evoked a vast amount of speculation. But what is surprising is the extent to which blame has been attached to, and criticism directed against, our general monetary policy, our financial organisation and the business practice of our banks.

Much of the criticism has undoubtedly been flavoured with political bias, especially that section of it emanating from Socialist or Communist circles, which regard our prosperous banking industry as the nucleus and essential basis of what is, to them, a pernicious capitalist system. But in a different category is the highly influential and expert body of authority, unquestionably above political or selfish motives, which has zealously attacked our cherished banking traditions, and has had some measure of satisfaction in seeing its criticisms lead to practical reforms of no little importance.

Many of the points of controversy which have received publicity during recent years are now almost common knowledge. It is well known, for example, that the Government issue of treasury notes with its inflationary consequences, and the dual control of our paper currency during the period 1914–28, have been blamed in many authoritative quarters for contributing largely to the nation's post-War financial difficulties. These objections, it will be recalled, were met by the amalgamation of the two note issues under the control of the Bank of England and by certain modifications in the Bank of England's system of note issue.

Criticism of the Joint-Stock Banking Structure.

In another direction, the structure of our English banking system has been roundly criticised on the ground that the continued process of amalgamation and the growth of giant institutions have brought in their train the harmful effects of monopoly and of long-distance control of local banking business. There is an undisguised feeling that, as a result of the monopolistic powers which the joint-stock banks are popularly supposed to exercise by virtue of their immense resources and wide ramifications, they must be gaining at the expense of the rest of the community; and that monopoly profits have followed diminished competition. Criticism of the large banks on these grounds has been markedly emphatic in certain quarters, as witness the following typical statement.[1] "The carrying out of all these intricate and involved operations has hitherto been the monopoly of the banks and their colleagues, the international financiers. And it wants little imagination to realise that the banks in controlling the enormous operations incidental to our world-wide international trade, can and do wield an overwhelming and terrible control over our import and export trade operations."

In considering any such criticism, it has to be remembered that the banks make large profits, not so much because they make high profits per unit of capital employed, but rather because they utilise sums which are enormous in relation to

[1] From a Pamphlet issued by the League of the British Commonwealth, an organisation of which the Right Hon. J. R. Clynes, M.P., is President.

their paid-up capital. Indeed, the margin of profit on each individual banking transaction is almost insignificant as compared with the profit made upon industrial turnover. A bank lending £100 for a year may make a net profit of something under 1 per cent., but, on a similar turnover, a manufacturer expects and often obtains a very much higher yield.

Moreover, there is the point stressed by the *Economist*,[1] that "those who inveigh against 'the banks' are apt to fall into the mistake of confusing, under that title, clearing banks, issuing houses, discount dealers and operators in foreign exchange. Failing to recognise that, in this country, the business of each of these branches of 'finance' is peculiarly specialised, critics too often impute general blame for the alleged failure of one branch to perform efficiently another's functions. Much may be gained from probing current misconceptions and laying down in clear and intelligible language exactly what a banker can and cannot do."

One result of the criticism of the joint-stock banks is that amalgamation among the leading institutions is now practically vetoed by the Treasury, though they have by no means ceased in other ways to extend their influence and connections.

The Controversy assumes a New Phase.

During 1928 the controversy assumed an entirely new phase. Now criticism was focused, not so much on matters of general credit and currency policy, as on the degree of practical financial assistance rendered by the banks towards the development and rehabilitation of industry in this country.

This new aspect of the problem has been widely debated. On the one side we have had a unmber of prominent industrialists, supported by members of the Government, and, indeed, of the whole legislature, declaring that British banks have lagged far behind those of other nations in the degree of financial assistance which they place at the disposal

[1] "The Bank Enquiry," 19th October, 1929.

of industry, and, in particular, of those branches of industry which have had to re-organise themselves to meet the changed conditions consequent on the War.

The actual criticism of the loaning policy of the banks has taken various forms, and there are at least half-a-dozen regular grounds of complaint. They have been accused of catering for the financial needs of the exporter rather than for those of the industrialist; of the financier rather than of the trader and manufacturer; of the speculator in stocks rather than of the legitimate trader in goods; and of the large capitalist rather than of the small business man. They have been arraigned for seeking to maintain a favourable balance on the nation's international account rather than endeavouring to assist production; for applying their resources to international purposes instead of to support the country's internal trade, and, as a consequence of their endeavour to keep their funds as liquid as possible, they have been blamed for refusing necessary long-term finance for industrial purposes, while affording every facility to the short-term borrower.

The body of criticism here referred to has widespread approval. In the words of Mr. R. Holland Martin, " Banking plays so large a part to-day in the life history of the individual and of the State, that the conduct of it rightly draws the criticism of all who are interested in industry and in the public welfare." [1] High and low, the most erudite and the least informed, have felt themselves free to discuss and to criticise the existing relations between finance and industry. No writer, however mean, has considered the question beyond the reach of his pen; no member of the legislature, however lacking in vision, has thought the matter beyond his knowledge and ability. Indeed, the history of the controversy has well illustrated the undeniable fact that attacks upon established constitutions gain in popular appeal in proportion as they substitute invective for argument.

Our leading bankers have, of course, ranged themselves in almost solid formation to resist the onslaughts on their

[1] Presidential Address to the Institute of Bankers, 6.11.29.

time-honoured traditions, and, quite reasonably, they point to the world-wide respect for those traditions as a self-evident proof of the success of their methods and policy. In the following pages, some attempt is made to explain the grounds on which British bankers seek to justify their general business policy and their attitude towards the demands of industry for additional capital.

Criticism of our General Monetary Policy.

The grounds on which the joint-stock banks are criticised are varied enough. "That the banker is unpopular, not merely in Labour circles, but among the business community also, admits to-day of no dispute. In its way it is one of the most significant of the differences between 1914 and 1927, and deserves the closest attention." [1]

But on one count the joint-stock banks are free from blame. They are, at any rate, innocent either of having forced deflation upon the community, thereby increasing unemployment, or of "having sacrificed the interests of industry to those of the international financier" by restoring the gold standard. These aspects of national policy are beyond their control, and, though no doubt the majority of bankers approved of the re-establishment of the gold pound in 1925, the Government and the Bank of England alone were responsible for the decisive steps taken to secure this end.

This matter of our general monetary policy has formed the subject of the most violent and extensive criticism, centred mainly on the Bank of England, which, despite its enormous powers, is still a private institution, subject to no direct Government interference, and maintaining an impenetrable reserve respecting its policy and its actions, vital though they are in their influence on the whole economic life of the nation—price levels, employment, wages and profits—and in their repercussive effects throughout the world. Yet "not so very long ago it was considered almost sacrilege even to mention the Bank's name in the Press,

[1] Dr. T. E. Gregory on "Functions of Banks in Modern Commerce," *Financial Times*, 3rd October, 1927.

let alone criticise it, and while every detail of our fiscal policy is debated with the widest possible publicity, decisions of vital importance are reached as to our monetary policy with the complete exclusion of publicity." [1] The pros and cons of this and other complaints against the Bank and against our general monetary policy are examined in the next chapter.

[1] "Views of Bankers on the Bank of England's Policy," *Financial News*, 22.9.28.

CHAPTER II

OUR GENERAL MONETARY POLICY AND ITS CONTROL

BOTH before and since Britain's return to the gold standard in 1925, a vast amount has been written and spoken in an attempt to demonstrate that the country's industrial progress has been stifled by the precipitancy with which the Bank of England and the Government arranged the restoration of the gold basis of our currency. The burden of the complaint was, and still is, that in 1925, only seven years after the Armistice and only four years after the collapse of one of the most violent booms in history, the country was not economically prepared for the sacrifice entailed by the deflation necessary to resume the gold standard on the pre-War basis.

THE POST-WAR GOLD STANDARD CONTROVERSY.

In the controversy to which the question gave rise, monetary opinion was widely separated into two opposing schools of thought, sometimes referred to as the *Sound Currency School* and the *Managed Currency School* respectively.

The Sound Currency School or London School.—In the first group were those who unhesitatingly accepted the recommendations of the Cunliffe Committee of 1918. They urged an early return to the full gold standard and immediate efforts to restore the dollar-sterling exchange to parity.

Among the many convincing arguments of the Sound Currency School, possibly the most important was the contention that the gold standard had been proved by long years of experience to be the best known means of regulating fluctuations in prices and in the foreign exchanges, and that a dependable standard, particularly for *external* purposes, is of vital importance in the case of a country such as Great

Britain, whose very existence depends on large purchases of food and material abroad and on the sale of manufactured products to other nations.

There were other almost equally strong arguments. London's international position is bound up with the gold standard, and her prestige demanded its restoration at the earliest possible moment after the War. The use of the sterling bill as an international exchange medium depends essentially on its convertibility into gold, and it could not have remained acceptable by the people of other countries if it had continued to represent a paper currency only. Moreover, in the years immediately following the Great War, amid the wreckage of depreciated currencies, people longed for a solid monetary basis. In this country, particularly, there were many who felt that the currency conditions and the price-level which then prevailed were abnormal and that a return to pre-War conditions was both necessary and desirable, especially as there had always existed on the part of the British Public a strong feeling against the continued depreciation of our currency, so long renowned for its soundness and stability.

As Mr. McKenna stated at the time, the psychological and moral aspects of the matter are of almost greater significance than the purely economic and financial considerations. "For so long as nine people out of every ten in every country think the gold standard the best, it is the best." The gold standard implies an international measure of value which inspires that confidence in the future so vital to the existence and persistence of stable business conditions, while the fact had to be faced that the abandonment of the gold standard by Britain would have dealt a severe blow at South Africa, Australia and Canada, which together produce the major portion of the world's gold supply.

The Managed Currency or Cambridge School.—This school of thought—led by Mr. J. M. Keynes, who has described the gold standard as a "barbarous relic," accountable for many of the difficulties with which the nation has had to contend since the War—has expressed itself strongly opposed both to the methods taken by the Government to restore the gold

standard in 1925 and to the continuance of that standard in this country.

According to this group of economists and prominent industrialists, the stability of *internal prices* is of greater importance than the stability of our exchange rates with other nations, since, they contend, our main object should be to remedy those fluctuations in prices which cause hardship in this country between debtor and creditor and between one class in the community and another. The gold standard, they maintain, has signally failed to ensure such stability, and its adoption throughout the world is undoubtedly one reason for the cyclical depressions which have characterised modern civilisation.

To remedy such defects, the Managed Currency theorists have suggested that, in place of our having one commodity—gold—as the measure of value and standard of deferred payments, we should substitute instead a *tabular standard of value*, consisting of a group of representative commodities, the total value of which would be less likely to fluctuate over a period than that of a single commodity. Before the Great War such a system, sometimes described as an *isometric standard*, had been advocated by the American economist, Professor Irving Fisher, and it undoubtedly has many theoretical attractions.

The adoption of a managed standard, it is held, would ensure internal price steadiness, since it would involve the issue of an inconvertible currency whose value would be stabilised in terms of the group of selected commodities, and the circulation of which would be expanded or contracted by careful adjustment according to the needs of trade. Hence, within narrow limits, the paper pound would always purchase the same quantity of goods internally; manufacturing costs and selling prices would be accurately determinable, and wage disputes would be reduced to a minimum.

In this connection, Mr. Keynes has stated that the most important argument in favour of such a currency is "that fluctuations of trade and employment are at the same time the greatest and most remediable of the economic diseases

of modern society, that they are mainly diseases of our credit and banking systems, and that it will be easier to apply the remedies if we retain the control in our own hands." Mr. Keynes and his associates claim that, by the institution of a managed currency, we should obviate the serious disturbance of industry and trade which must result from a seemingly haphazard method of credit restriction and expansion, with its consequent uncertainty as to the future course of commodity prices, and that, having achieved the most important object of keeping sterling prices steady without reference to our gold reserves, we could utilise the latter, not to maintain the convertibility of our currency, but to regulate our gold exchanges with the U.S.A. and other countries when they were disturbed by temporary or occasional causes. Finally, it is urged that since our return to gold our price-level has been entirely dependent upon that ruling in the United States, and that we should make every effort to free ourselves from a yoke which means, in effect, that any change in American monetary policy is reflected in this country, frequently to our serious disadvantage.

Objections to a "Managed Currency."

From a purely scientific standpoint the proposals for a managed currency are undoubtedly attractive, but a number of objections would need to be met before such a scheme could be put into practice, particularly in such a country as our own. In the first place, the maintenance of internal price steadiness does not guarantee freedom from exchange fluctuations, and the achievement of any degree of exchange stability would appear to necessitate international agreement on monetary policy, a difficult matter at the best of times. Again, the successful "management" of a currency on the lines suggested depends on the use of price index-numbers as a basis, but the compilation of index-numbers is still an art rather than a science, and it does not seem that sufficient advance has yet been made in this direction to justify the management of our currency on a basis known to be arbitrary and inexact. In any case, it appears inevitable that any monetary policy thus dependent on arbitrary rules would be

subject to violent criticism, in view of the different interests which are necessarily affected by changes in the value of the currency. Another very pertinent objection is that it would be difficult, if not impossible, to ensure that a managed currency should be free from political interference, especially when the fortunes of the Government are, as at present, so intimately bound up with the success of its financial policy.

"In a country like England, so subject to foreign influences on her trade outlook, depression might easily arise that could not be cured by domestic monetary devices. . . . [A currency subject to State control] opens a door to interference by the House of Commons in a sphere in which its activities are far from desirable. The gold standard frees us from meddling with our money by politicians, has worked right well in the past, and may do so again, whenever the politicians succeed in giving us peace and security and confidence and good-will." [1]

The final objection—that external price stability is more important than internal price stability—is especially relevant in the case of a country, like Britain, with a large export trade. As Britain lives by buying and selling in foreign markets, it is imperative that her medium of foreign exchange should be as stable as possible, and, so far, no method other than strict adherence to the gold basis has been shown to be practicably capable of achieving this stability.

Britain's Return to Gold.

In spite of the theoretical attractions of a managed currency and in spite of the suggested danger of our being bound to the United States by chains of gold, the Government was induced by the weight of opinion among our bankers and in the City generally to carry through its declared intention of restoring sterling to parity with the dollar and of effecting a speedy return to the essentials of the pre-War currency system. In his Budget speech of April, 1925, Mr. Churchill was able to announce that final steps had been taken to restore the free market for gold in London.

Our return to gold was an event of paramount importance,

[1] "Bankers and Credit," by Hartley Withers.

marking the end of a period of financial upheaval unparalleled in our history. The resumption of the gold standard betokened the return to that parity between sterling and gold which had existed for nearly one hundred years prior to the War. It meant the re-establishment of equality between the purchasing power of sterling and the purchasing power of gold—a fact which has endowed the British monetary unit and British instruments of credit with a world-wide prestige.

Viewed in the light of the experience of other countries during recent years, there can now be little doubt that, at the time of Britain's return to gold in 1925, she was faced with only two alternatives : either at once to restore the gold standard on the pre-War basis, or to return to gold at a lower value of the pound, *i.e.* to resort to *devaluation*. A good case could be, and has been, made out for each of these two alternatives. But of one thing there can be no question : either of the two courses open to the country was to be preferred to any prolongation of the uncertainty engendered by our continuance away from the gold basis or to the paralysing effects which must have followed any attempt to restore the pre-War parity by a further drawn-out process of deflation.

Is the Sacrifice Worth While?

Once the restoration of the gold standard had become an established fact, its critics concentrated their attention on the question whether the continued maintenance of the gold standard by this country, with its implications of having to protect our central gold reserve by high rates of discount, and having to secure stability of the foreign exchanges by manipulating the volume of credit and so disturbing the level of internal prices, is really worth the sacrifice it entails. The lessons of the last few years have proved unmistakably that the maintenance of a free gold market in London, and the adherence to an "open-door" policy in both trade and finance, necessarily imply extreme vulnerability. Any foreign nation or foreign individual in need of gold in quantity naturally "tries London first," and so it happens that the

Bank of England, as the holder of the nation's ultimate gold reserve, is frequently subjected to a persistent drain from one, two or more foreign centres which makes its position, to say the least of it, highly uncomfortable. In such circumstances the Bank has to adopt some means of checking the outflow, and it is then that it resorts to the device of increasing its rate of discount—the Bank rate—with a view to attracting funds to this country, decreasing our own export of funds abroad, and, by restriction of the volume of credit, raising both the internal and the external value of sterling.

But, while it is acknowledged that the raising of the rate of discount is the most effective device available to the Bank in the present scheme of things, it is urged that, in the long run, the cure is far worse than the disease. It is argued that changes in the ruling rates of interest are in themselves harmful by reason of the uncertainty which they engender, and also that the prevalence of high rates, imposed in order to safeguard the nation's gold reserves against foreign drains, must have a depressing effect on industry by increasing the charges which producers have to pay for accommodation.

These criticisms of our monetary policy have come from all directions and even from inside the great joint-stock banks. Mr. Reginald McKenna joined forces with certain prominent industrialists and leading economists, first, in ascribing our post-War industrial depression and unemployment to the stringent credit policy pursued by the Bank of England and the Treasury, and, secondly, in demanding a reform of the structure and methods of our Central Bank.

Criticism of the Bank of England's Constitution.

Particularly widespread has been the controversy surrounding the question of the power wielded by the Bank of England in relation to the nation's economic position. The sphinx-like attitude of the Bank authorities on matters of vital importance has occasioned much dissatisfaction. "One of the most striking anachronisms in the Bank's procedure is that no accounts other than brief weekly statements are published. It would almost appear that the officials of the Bank like to work surrounded by an atmosphere of mystery.

For our premier institution to follow such a practice of secrecy is in striking contrast with its insistence on information from other Central Banks." [1]

The view of other experts on this point may be appreciated from the following paragraph extracted from the Report of the Liberal Industrial Inquiry, which, although inspired by a political group, was backed by such prominent economists as Mr. J. M. Keynes and Sir (then Mr.) Walter Layton. Commenting on the question here referred to, the Report states : [2]

> "In our opinion the Bank of England should give far greater publicity than at present to the principal monetary transactions for which it is responsible. The existing form of accounts,[3] which was drawn up over a century ago, is altogether inadequate for modern needs. For a proper understanding of the policy of the Bank, detailed figures prepared in the light of contemporary requirements are essential. In addition, we consider that the Bank of England might well follow the path blazed by the Federal Reserve Board and give general indications of its monetary and credit policy from time to time, of the objectives it is pursuing, and of the means by which it hopes to attain its end. We are convinced that such publicity, far from doing harm, would actually strengthen the position of the Bank and would give confidence and assurance to responsible financial and banking authorities."

The fact that the Bank of England is a private concern and that it maintains merely an undefined and apparently haphazard connection with the Treasury is another strong ground of objection. The Labour Party, in particular, has shown itself little disposed to tolerate a continuance of the existing arrangement. A statement on Banking and Currency Policy issued by this Party in 1929,[4] proposed drastic action to deal with the matter by the reform of the Bank of England and contended that the Bank's directorate should be made responsible to the community, and not merely to individuals. To this end it suggested that control of the Bank should be placed in the hands of a "public

[1] "The Control and Reform of the Bank of England," by Roy Hopkins (London General Press).
[2] "Britain's Industrial Future" (Benn, London, p. 417).
[3] The form of the Return has since been slightly altered by the Bank after consultation with the Treasury.
[4] "Labour and the Nation," p. 28.

corporation, to contain representatives of the Treasury, the Board of Trade, Industry, Labour and the Co-operative Movement."

The "new model" thus proposed by the Labour Party has scarcely won academic support, however, mainly because the plan promises interference with the functions of the Central Bank by interests open to political bias. Leading economists, with the possible exception of those in the Labour Party, and an important body of opinion in the City, are known to be strongly opposed to any kind of political control over the Bank. At the same time, the tide of expert opinion is now obviously running in favour of some degree of reform which will involve, not only greater publicity respecting the Bank's financial position and policy, but also a greater degree of more positive contact between the Bank of England and the Government, through the Treasury, on all matters of national monetary importance.

Currency and Credit Control.

Whilst it is not unlikely that reform will soon be made in the constitution of the Bank of England which should satisfy some, at least, of the criticisms, it will be much more difficult to meet the widespread demand for reform of the theoretical basis and practical technique of our credit and currency system.

What we may call the "modernist" views on this matter have been expressed several times by Mr. Reginald McKenna, who has earned a wide reputation for outspoken views on central banking functions and operation. Speaking in June, 1927, at a representative gathering of engineers and industrialists under the auspices of the British Engineers' Association, Mr. McKenna reiterated a previous demand for an inquiry into these matters, and, referring to the fact that a number of countries had of late years reformed their central banking institutions, he said that this had been done under the compelling influence of a single idea—the necessity of providing an elastic currency and more latitude in the use of gold reserves, with the effect of giving greater freedom to the Central Bank in the control of credit. Those countries, he

said, had not copied the Bank of England, but had adopted in principle the Federal Reserve System of the United States. That suggested that there was something for this country to learn, and Mr. McKenna expressed the opinion that the disastrous consequences of the vast war-time inflation of our currency might have been avoided if the authorities had had a better understanding of the principles on which credit should be controlled. He stated that, in his view, the problem was one which was capable of mathematical demonstration, and, therefore, an inquiry must be of the greatest value, in that it would help to form public opinion, and so assist the authorities to establish as good a system as was existent elsewhere.

Views of the Industrial Peace Conference.

The demand for reform of our Central Bank and of our system of monetary control has been echoed in the political camps and by industrial associations throughout the country. In April, 1928, the Conference on Industrial Re-organisation and Relationships (otherwise known as the Industrial Peace Conference), comprising eminent industrialists, representatives of Employers' Federations and of the General Council of the Trades Union Congress, addressed a Memorandum to the Chancellor of the Exchequer expressing strong doubts on our then existing monetary arrangements, and suggesting that our currency and banking policy, as directed by the Treasury and the Bank of England, ought to be framed so as to safeguard and further the special interests of industry.

The Memorandum is noteworthy among documents of its kind for the clarity with which it summarises the position as it appears to the worker and the industrialist. In arriving at its conclusions, the Conference had regard to the fact that modern large-scale industry is nearly always, at some stage, dependent upon credit. The producer of raw materials usually requires to borrow on the security of his goods to cover the interval between their despatch and their receipt by the manufacturer; the manufacturer must buy his raw materials and pay wages and other expenses for some time,

perhaps a long time, before he receives payment for the finished product.

To both producer and manufacturer, therefore, two things are important: (1) the rate of interest charged for the money they borrow; and (2) the willingness of banks to lend them as much as they need and for as long as they need. As a rule, they find little difficulty in borrowing if they can provide good security, but at times they may find difficulty in obtaining the necessary loans—particularly when the banks are restricting credit.

Since the rate of interest and the control of credit in this country are ultimately in the hands of the Bank of England, the Conference considered that it was of vital importance to those engaged in industry that the needs of industry should not be overlooked by the Bank in deciding on its credit policy.

Without doubt, this Conference was influenced by Mr. McKenna's argument that no single one of the countries which had re-organised their banking institutions since the inauguration of the Federal Reserve System by the United States had copied the rigid pre-War British model, but that all had based their monetary arrangements on some modification of the more elastic American system, which had also been the basis of the system unanimously imposed by the Allies on Germany under the Dawes scheme.

Both the arguments and the conclusions of the Conference, as expressed in the Memorandum,[1] are typical of the views of the industrial and academic schools, and for that reason they may usefully be quoted *in extenso*:

" 1. *Preamble.*

(*a*) Since industry and commerce in highly developed countries are necessarily dependent on the provision of credit facilities, financial policy has become a matter of the greatest importance to all those engaged in industry.

(*b*) It is now generally recognised that under the automatic application of the gold standard customary before the War, changes in the supply and value of gold played a highly important part in bringing about the long and short price movements and

[1] This was signed by Sir Alfred Mond (afterwards Lord Melchett) and Mr. Ben Turner (representing the General Council of the T.U.C.).

industrial fluctuations which seriously disturbed the even flow of our national development, and gave rise to grave social and industrial ills.

(*c*) In view—

(i) Of the fears expressed by experts as to the adequacy of the world's gold supply in the near future and the prospect of a prolonged period of trade depression which this opens up;

(ii) Of the urgent need that British industry should not be further hampered in its efforts towards recovery from the post-War depression;

(iii) Of the impending transfer of the Treasury note issue to the Bank of England and the legislation which may be expected to accompany that transfer; [1]

(iv) Of the conviction that it is impossible to restore prosperity to industry and trade, or to revive or maintain stability of trading conditions, unless the elasticity of currency and credit is so arranged to meet the requirements of industry and commerce that industrial recovery will not be arrested by the lack of credit facilities, as soon as increased production becomes effective;

" 2. *Resolution.*

We consider—

(*a*) That under the special conditions in which the gold standard operates at the present time, we are not convinced that it is either practicable or desirable that the credit policy of the country should be determined more or less automatically by gold movements as in pre-War days.

(*b*) That it is highly undesirable that the Bank of England should be so tied down by the provisions of a gold reserve law as to be unable fully and freely to co-operate in the plans adopted by this country and the rest of Europe at Genoa in 1922, for international co-operation in economising the use of gold, regulating its distribution, and preventing undue fluctuations in its value in terms of wealth.

(*c*) That it is therefore essential to hold a full inquiry into the best form of credit policy for this country before decisive steps are taken by the Government."

These findings quite frankly suggest that there are times when industry cannot but benefit from a reasonable expansion or inflation of credit, whereas, if the signatories to the Memorandum are to be believed, the policy of the Bank of England has for some years been deliberately deflationist, and

[1] The Memorandum was issued before the Currency and Bank Notes Act came into force in November, 1928.

so restrictive as to paralyse business incentive and industrial progress.

Criticism by the British Electrical and Allied Manufacturers' Association.

Of the many organisations which have not minced matters in their criticism of the Bank of England's policy, possibly the most prominent has been the British Electrical and Allied Manufacturers' Association. In a Survey of the General Economic Position,[1] this Association distinctly asserted that our general financial policy "has been a very powerful factor interfering with the normal growth of business, and has undoubtedly contributed to the state of depression which has ruled in this country. . . . The home market has been virtually ruined for the manufacturer through the unbroken régime of credit restriction which has persisted during nine years, and we can attribute the lasting depression in industry to the policy initiated by the Bank of England in the autumn of 1920 and carried out with the support of the Governments in power without interruption until now. . . . The result of this campaign to reduce wholesale prices . . . has been to drive the basic industries practically into bankruptcy, while other industries have remained untouched." In the same article the Bank of England was accused of having made its policy "dependent on movements in the United States and of having made sterling entirely subordinate to the dollar to such effect that the industrial and economic position of the United States has more importance for the Bank of England than the industrial and economic position of Great Britain."

A Political View-point.

The strength of opinion in political circles on the question here discussed is indicated by the following resolution moved by Mr. J. S. Wardlaw Milne, M.P., at the Annual Conference of the National Union of Conservative and Unionist Associations held at the Albert Hall in November, 1929 :

[1] Published in the Association's Quarterly Trade Journal, December, 1928.

"That in the opinion of this Conference the only remedy for unemployment is the prosperity and extension of our industries, and that this is dependent upon reasonable credit facilities being available for the development of existing undertakings and for assisting in the inauguration of new enterprises. This Conference, therefore, is strongly of opinion that the inquiry into the working of the Bank Charter Act should include examination of the whole question of credit facilities, the effects of the return to the gold standard and the influence which banking amalgamations have had upon productive industry generally, and particularly upon the facilities available for the small industrialist. It also calls attention to the necessity for this inquiry to be conducted by those actively engaged in productive industry as well as by those interested mainly in finance."

It will be observed from the form of the resolution that, although it was already known in the country that a Committee of Inquiry into our banking structure and policy was in being, there was anxiety in case the Committee should be so influenced by the weight of banking opinion as to refrain from recommending any radical change in our monetary system. Mr. Wardlaw Milne, who was responsible for the resolution, has long been a strong opponent both of the structure of the Bank of England and of the amalgamation movement in English banking, and his views are widely supported in the important political group with which he is associated. In a recent interview [1] he stated :

"I have pressed in the House of Commons in the last few years that the Bank Charter Act of 1844 required re-examination, and I have also pointed out that the present system of banking, in which the provision of credit is almost entirely in the hands of a few enormous concerns, whose administration is centred in London, is not really the best possible for the industries of the country, and certainly makes the initiation of new enterprises, particularly by the small capitalist, a very difficult matter.

"We talk very glibly about the country being on the gold standard, but it is very doubtful whether any two authorities would describe what the gold standard means in identical words or phrases. . . . If it is true, as we are told, that the national income has declined in the last ten years in terms of money, it is certainly equally or more true that it has declined in terms of gold, with the result that the people to-day have probably only money to purchase a little more than half the comforts and necessities of ten years ago. But the National Debt, on the other hand, has

[1] Reported in the *Financial News*, 21.11.29.

been increased, and the cost of paying interest on this, owing to the high Bank rate necessary under the present conditions of a so-called gold standard, is a huge drain upon the country's finances. . . . I maintain that if it was the intention to return to the gold standard, there was no necessity to return to a value fixed a century ago. As a matter of convenience it may be desirable to maintain gold as the standard for international settlements and payments, because it is the handiest and most suitable basis that anybody has been able to suggest, but I see no reason whatsoever why that standard should be maintained as the basis of our internal obligations, and of the transactions which take place between our own people and within our own borders.

"It is impossible to have active trade and industry unless that trade can have the ample credit that it demands. It is not the Bank of England, but the system which is wrong. We are told that the reason for the rise in the Bank rate [1] was the necessity for drawing gold back to this country. Incidentally, it is doubtful whether the remedy cured the disease, but, leaving that aside, for what reason, I ask, should the manufacturers and producers of this country have to pay the immense sums which this rise has caused industry to bear, merely because a large number of people, thousands of miles away, engage in an orgy of speculation?

"If the drain on the gold reserve was the result of over-trading or speculation here at home the position might be a very different one, but we know that it is not so, and it is essential, if our industry is to recover, that a way should be found of preventing the international banking operations of the City of London from interfering with the credit which is essential for our industrial life.

"The conditions under which the Bank Charter Act of 1844 came into operation have long since passed away. Cheques have entirely superseded notes, and the use of sovereigns has been abandoned. To compel the Bank to-day to consider its note issue on the basis of any standard of gold is to force the Bank actually to put a brake on the expansion of trade. As employment revives and wages increase it stands to reason that more and more currency is required, and the Bank is therefore more and more concerned over its gold reserves as compared with the circulating currency. . . . It is forced to take measures to protect itself, and such measures actually retard the extension of trade if they do not destroy it altogether.

"The fiduciary issue of £260,000,000 could be very easily increased without the slightest danger to our national life, and without any of the dangers which we are so constantly told will result. The question is not one of inflation but of common sense. It is essential that the national and international use of gold should be sharply divided to secure for our industries a low Bank rate, to save the taxpayer money in interest on Government loans, and to secure that the savings of the people shall be invested,

[1] *I.e.* in the autumn of 1929.

as they shall be secured, in the products and the productive possibilities of their own country."

Views of the Master Cotton Spinners' Association.

Finally, we may quote without comment the following resolution [1] which was agreed to by representatives of the Federation of Master Cotton Spinners' Associations and other industrialists at a meeting in London in January, 1930 :

" That this meeting favours the reform of the Bank of England in such a way as will accord with modern central banking practice, as adopted by the U.S.A. Federal Reserve System and the South African Reserve Bank, but that the gold reserves of the Bank should be used exclusively as an international means of payment —that is, maintained as reserves to form part of the basis of the currency, but in such a way as not to affect the internal credit system or the principle of convertibility of the currency into gold, which must be maintained without question."

Has the Bank's Policy prevented Trade Revival?

The foregoing extracts give some indication of the extent to which the general monetary policy of this country has been blamed for accentuating the difficulties of our leading industries. During 1929, fuel was added to the already heaped-up fires of criticism when the Bank of England, in order to protect its reserves against continuous gold withdrawals to the Continent and elsewhere, raised its rate of discount by stages to 6½ per cent. The Bank's action was roundly denounced by industrialists and employers, who insisted that the high rates of interest would still further cripple our halting industrial life. It was pointed out that, again and again since the crisis of 1920–21, our internal trade had no sooner begun to show signs of recuperation and renewed activity, than all hopes were blighted by the raising of the Bank rate, thus restricting credit and adding to the weight of the charges borne by the producers for that financial assistance without which progress is impossible. " Every time the underlying conditions have been favourable to

[1] The resolution was embodied in a statement issued on 4th February, 1930, by the British Economic Federation, on the executive Committee of which the Master Cotton Spinners' Association is well represented.

trade revival; every time signs have appeared that recovery was actually taking place; on every such occasion, without exception, industry has been held back, on the one hand by insufficient credit supplies for productive purposes, on the other by the closely connected insufficiency of public purchasing power to take off the market the goods actually produced." [1] In brief, it is contended that credit supplies to industry have been cut off at the crucial point. They have been granted long enough to give temporary stimulus to production, but have been stopped before the distribution of the additional credit through the channels of wages and profits has had time to take effect. Hence the ups and downs and incipient revivals of British trade.

Whether the arguments mentioned are sound or otherwise, they do unquestionably demonstrate, on the one hand, the growing realisation of the vast power for good or for evil which now lies in the hands of those responsible for the control of the credit and currency mechanism, and, on the other hand, the imperative need for an unselfish, non-political monetary policy framed in the interests of the nation as a whole.

Difficulties of the Position.

Unfortunately there is not a vestige of agreement, among those best qualified to judge, as to what monetary policy is best suited to the peculiar interests of this country. For, in considering any question of credit control or manipulation, the fact has to be faced that Britain's position is peculiar. A variety of factors—notably the pioneer spirit of her traders, the possession of vast resources of important materials such as iron and coal, and an early lead in the manufacturing industries—enabled Britain to build up an international business of enviable proportions. The nation of shopkeepers became also a nation of bankers and, on the certain foundations of an unrivalled industrial and commercial predominance, erected for itself a financial leadership of unquestioned strength, and one which has been maintained even in face of the difficulties of recent years.

[1] *Midland Bank Review*, August, 1928.

London's position as the world's leading monetary and banking centre, the acknowledged prestige of her money, discount and foreign exchange markets, the universal recognition of the sterling bill as a form of international currency, the unchallenged reputation of London banks and financial houses, the extension of our banks throughout the Empire and to foreign countries—all these are matters which prove beyond a shadow of doubt the leading position of the nation in the international financial economy. Incidentally, they demonstrate that, so far as our foreign trade is concerned, the banks cannot be accused of having been apathetic, negligent or unmindful of opportunity.

Members of what we may call the *Industrial School* in this controversy are not unprepared to acknowledge the value of Britain's position in international finance. But the question which they ask is whether the retention of London's financial leadership and all that it implies is really worth the sacrifices which industrialists and others have to make in the way of high charges for credit and capital. They maintain that the monetary policy of this country should be framed, first and foremost, to assist our industries because of the valuable contribution made by their products to the total of our exports and so to the credit side of our balance sheet of international payments, whereas they urge that it has, in fact, contributed materially to the depression from which many of our leading industries are now suffering.

The Value of Britain's International Financial Services.

On their part, our bankers are the first to recognise the imperative need of every possible effort to encourage our industrial exports, and especially those from our now depressed basic industries. But they contend that Britain's services as banker, insurer and financier are also an export, though invisible, of huge annual value, ranging perhaps from £60 to £70 million. Such exports help to "square" our international balance sheet in just the same way as do exports of manufactured goods, and were it not for the profits made out of this international business the banks

would be compelled to charge much higher rates for credit accommodation to domestic industry. Moreover, as Mr. R. Hugh Tennant has convincingly argued, the foregoing figures relating to our invisible exports of banking and insurance services tell only one-half of the story. Thanks very largely to Britain's unrivalled banking facilities, a huge income approaching £300 million annually accrues to her from vast investments overseas during past years. And this transfer of capital abroad still continues.

"London, as an international financial centre, has played a large part in finding opportunities for such investments, providing the machinery for their emission, filling the gap between the time when the foreign borrowers require the money and the time when the British investor is prepared to furnish it, providing facilities for the transfer of such securities, safeguarding holders' interests after their emission, and so on. In practice, this policy has given positive and most important benefits to British productive industry. Foreign borrowers have frequently used a large share of the proceeds of loans in the placing of orders with British manufacturers. Judiciously made, such loans enhance the wealth and *purchasing power* of overseas borrowing countries. . . .

"Even this is not all. Overseas trade—which, let us not forget, is the life-blood of this country—calls for complex and specialised financial machinery in which separate but essential parts are played by banks, accepting houses, discount houses, foreign exchange brokers and others, each with its own connections, established in every large corner of the world. Without these facilities overseas commerce might not be impossible, but it would be a far more hazardous and tardy process for the trader. In London's machine of international finance the British trader has at his beck and call facilities more efficacious than those available in any other country.

"If we were to awaken to-morrow and find that London had ceased to function as an international centre, it is clear that we should have to face a situation in which British trade and the national wealth would be very much worse off than they are at present." [1]

One other argument of our leading bankers on this particular question may be mentioned. They maintain that, if Britain's industrial leadership in certain directions is gradually passing away from her, then every effort should be made to strengthen and consolidate her still profitable

[1] Speech at the Westminster Bank Annual General Meeting, 29.1.30.

business as an international banker and financier. For this, they contend, the maintenance of the gold standard and of stability in the foreign exchanges is imperative, whilst strong gold reserves are as essential to us as a nation of bankers as they are to a private banking institution.

How Bankers explain the Depression.

It will be clear from the foregoing brief review that bankers as a whole refuse to accept the suggestion that the depression in our basic industries is due to monetary policy alone. It is due, they contend, not to monetary policy or to any other single cause, but to a number of causes, some peculiar to this country, and some common to Britain and other leading industrial nations.

The most important of the common causes is that already referred to in the first chapter—the world-wide collapse in commodity prices. After the great post-War boom culminating in 1920, when prices reached unprecedented heights, the course of trade throughout the world swung into a prolonged and not wholly unexpected period of depression, which has seriously affected home industries and export trades not only in this country, but also in most other countries. Without doubt the position has been aggravated by the monetary policies of the post-War period as well as by the severe dislocation which was bound to follow the change-over from a war to a peace equilibrium. But in justice to monetary authorities, both here and abroad, it has to be stated that they have been faced with conditions the like of which the world has never previously seen, and they have had to proceed by trial and error rather than with any preconceived ideas or with any similar experience to guide them as to the best course to adopt in the unprecedented circumstances.

So far as the causes peculiar to this country are concerned, the position taken up by the bankers is that, in the purely industrial field, the British lead has been rapidly diminished by other progressive nations; that the decay of our great industries is the inevitable result of intensified competition and of the headway made by other countries which at one

time relied upon us for their supplies. Some consider that this unfortunate position has been accentuated by our rigid adherence to the policy of free imports, but all agree in allocating much of the blame to the out-of-date policy of our employers, especially in not reducing production costs by scrapping antiquated methods and plant which, in more progressive countries, have long been superseded. These matters are examined in the next chapter.

The Problem of Wage Costs.

One highly controversial argument of many of our bankers and leading economists is that much of our present difficulty is attributable to the high real cost of labour in this country in relation to wage costs in other countries and to the price which we can now demand abroad for our products. It is indisputable that the marked fall in commodity prices during a period when wage rates have remained at the relatively high level reached during more prosperous times [1] has resulted in a not inconsiderable rise in *real* wages and also a marked increase in the *real cost of labour*, which has fallen on an already slow-moving industrial machine. It is true that some part of the higher cost of labour has been offset by the rationalisation of industry, but it is without question that, in some cases, the wage bill is far heavier than the industry can bear, and that lower wage rates, combined with lower social charges, especially in France, Belgium and Germany, have materially assisted our rivals to capture our trade in other markets.

British wage rates in the so-called "sheltered" trades [2] are particularly high, with the result that essential personal services are far more costly than they are in other countries,

[1] Between 1924 and June, 1929, wholesale prices (according to the Board of Trade Index-Number) fell in the ratio 100 : 72·6, whereas wages (according to the New Index of Average Weekly Wages of the London and Cambridge Economic Service) fell only in the ratio 100 : 98·25. Moreover, whilst wholesale prices in September, 1930, were only about 14 per cent. above the pre-War level, wages were estimated to be about 70 per cent. above their level in 1913. Wages and costs are, in fact, no longer automatically adjusted: there is what has been called a "sectional protection" of the former.

[2] *E.g.* transport workers, public utility workers, Civil servants, workers in the distributing and retail trades, and workers in the safeguarded industries such as motor-car manufacturing.

and are remunerated on a much higher scale than the services of workers in the so-called "unsheltered" or "exposed" groups in this country. Such conditions have two important results: they must increase the cost of production of all products whose manufacture at some stage requires the highly paid services, and they must add to our difficulties and increase unemployment because the exposed trades have to suffer for the higher wages paid by the community to the sheltered workers.

In face of these facts many bankers contend that "the key to the future of our foreign trade is to be found in the problem of labour costs at home. If labour costs remain high relative to those of other countries, while consuming power also remains high by reason of our method of distributing wealth, the tendency for imports to advance relative to exports may continue for some time. . . . But in recent years we have been consuming without replacing certain forms of capital, notably that invested in our great exporting industries and our agriculture. When this form of bounty in aid of consumption is exhausted there will be a reversal of relative values, and our labour costs will have to come down at the expense of consumption." [1]

The necessary adjustment of wage costs in general may, of course, be effected either by a reduction of nominal wages or by an increase in productive capacity and efficiency to enable industry to support the higher remuneration which the worker justly claims as his due. As Sir Herbert Hambling has stated, "We can only continue to work shorter hours and receive higher wages than our competitors if we can turn out goods in those shortened hours of at least equal quantity and quality and at no higher cost per unit. There are no short cuts to prosperity, and if we are to maintain or improve our standard of living, it can only be done by maintaining or increasing our efficiency.

"Among the influences hampering a return to prosperity, the failure to realise this mutual dependence looms possibly largest of all. Labour and capital are partners in industry. Each has its function—each is indispensable, and each is

[1] "Course of British Foreign Trade," *Financial News*, 30.7.28.

entitled to its just reward. Disagreement is due to lack of appreciation of the fact that the interests of capital and labour are identical. The partnership breaks down when either party acts in the belief that its own sectional interest can be served at the expense of the other." [1]

Although the view that high wage costs account for much of our present difficulty finds little support in Labour circles, it is nevertheless confirmed by a Report [2] issued in 1929 by the International Labour Office dealing with the influence of currency fluctuations on employment, and the conditions affecting the regulation of employment in the coal, cotton, wool and silk textile industries. The Report further establishes the direct relation between changes in the general price-level and the state of employment, and shows that periods of rising prices are characterised in the majority of cases by increased employment. In explanation of this phenomenon, the Report states :

"It may be assumed that the general level of prices is determined by the relation between the quantity of goods offered for sale at any given time and the supply of means of payment available for the purchase of those goods. If the general price-level rises, it may be taken to indicate that the supply of the means of payment has, for some reason or other, been increasing faster than the quantity of goods offered for sale. The cause of this higher rate of increase may be, for example, an increase in the supply of currency, an expansion of credit, or some change in the organisation of the banking system—some form of "rationalisation," to use a fashionable term—as a result of which there is an increase in the velocity of circulation. But whatever the cause of the relative abundance of means of payment, its effect is clearly that of a stimulus, perhaps artificial and momentary, but still a stimulus, to business activity. This is one reason why unemployment shows a tendency to decrease during a period in which the general price-level is rising.

"Conversely, a fall in the general price-level implies that the means of payment are relatively scarce as compared with the supply of commodities offered for sale. This being so, it may reasonably be assumed that there will be, in consequence, a slackening of business which, in turn, will lead to increased unemployment. It would thus seem that the alternate excess and insufficiency of means of payment as compared with the quantity of goods offered for sale constitute an almost automatic cause of

[1] Inaugural Address as President of the Institute of Bankers, 1925.
[2] "Unemployment: Some International Aspects, 1920–28."

expansion and contraction of trade, and hence of an alternate increase and decrease in the capacity of absorption of the labour market."

The Report concludes :

"It seems possible to declare emphatically that abrupt, or even slow but prolonged variations in the general price-level, or, in other words, disturbances in the equilibrium between production and the means of payment, play no small part in determining the alternating acceleration and retardation of economic activity, and are hence an important cause of the recurring unemployment crises which mark one phase of the cycle. If, then, the magnitude of variations in the general price-level could be reduced an important cause of unemployment would be rendered less potent. But is such a reduction feasible? This is the vital question, to which those competent in the matter are becoming more and more inclined to return an affirmative answer."

This conclusion clearly attributes the responsibility for the fall in our general price-level to monetary policy. But it seems generally agreed by leading economists that the rigidity in the level of wages and in working conditions generally in this country which has followed the strong development of trade unionism—"the fact that Labour speaks with more certain voice and acts with greater solidarity in this country than elsewhere"—has been an important factor in raising British industrial costs above the world level, and that some reduction of wage costs will have to come before progress can be achieved.

Those who have invested their savings in industry have had to face enormous losses during the reconstructive processes necessary to place British industry on a competitive footing, and there are many who think that labour should co-operate to the same end by accepting some sacrifice of remuneration which will permit industry to bring down production costs.

Are the Effects of a High Bank Rate on Trade Exaggerated?

One other aspect of the question may be mentioned. Bankers argue that critics of British monetary policy tend to over-estimate the effect of a rise in the Bank rate on

industrial activity. "The magnitude of the effect produced by a rise in Bank rate upon the scale of business is capable of being exaggerated, and the reason why any effect is produced at all is perhaps more complex than at first sight appears to be the case. Over a considerable part of the field of business, a rise of 1 or 2 per cent. in the cost of bank credit is a negligible factor in the cost of production per annum: 1 per cent. increase in the Bank rate is only $\frac{1}{12}$ of 1 per cent. per month, or 1*s.* 8*d.* per £100. Thus it is not perhaps the direct extra pecuniary burden which has to be considered so much as the indirect psychological effects. Bank rate acts as a warning against further expansion rather than as a monetary punishment."[1] On the same point, bankers have had the support of Mr. Philip Snowden, the Chancellor of the Exchequer, who has produced statistics to justify his argument that a high Bank rate does not, in fact, retard industrial development to any appreciable extent.

Without a full knowledge of the circumstances in which a high Bank rate operates, it is not, of course, possible to express any definite or universally applicable opinion. But it cannot be denied, even by the strongest supporters of British monetary policy, that a high Bank rate must and does either directly or indirectly affect the operations of the average business man. Directly, it affects the merchant or trader who conducts his business on borrowed capital or whose bills are discounted in the money market; indirectly, it must affect *every* trader because of its influence on those of his customers who trade with borrowed funds. And this influence will necessarily be more pronounced in a community where the banking habit is strong (as in Britain) than in a country where that habit is less developed (as in Spain or Poland). Moreover, quite apart from the psychological effect of a high Bank rate, there is the fact that the effect of high interest rates is much more acute in times of depression, when profits are at their lowest margin, than in prosperous periods, when profit margins are increased and business men can afford to pay high charges for funds wherewith to conduct their operations.

[1] "The Return to Gold," p. 17, by Prof. T. E. Gregory.

Has the Bank of England much Choice in the Matter of Credit Control?

Socialist critics of the national monetary policy who are confronted with the argument that high wage costs are crippling industry, at once reply that the fall in commodity prices which has occasioned the rise in real wages is a direct result of the Bank of England's deflationary policy, and that, if this policy had been more wisely controlled, it would have prevented the fall in commodity prices to that point which rendered the existing wage rates a burden upon industry.

In opposition to this view, the fact must be reiterated that, in spite of the fall in wholesale prices, the total advances of the leading banks in recent years have shown a decided upward tendency. They are actually £100 million higher than they were when the country returned to the gold standard, and, of course, now possess a much higher purchasing power than they did six years ago because of the considerable fall in wholesale prices. Hence, the so-called "restrictive" policy of the Bank of England has not been inconsistent with a considerable increase in the volume of credit, and to that extent monetary policy cannot be blamed for the unemployment which by some is attributed to the lag between wage adjustment and the movement of commodity prices.

Moreover, if we leave out of account the active steps taken by the Bank of England and the Treasury in 1925 to restore the gold standard, and confine our attention to succeeding years, the truer view would appear to be that the Bank and the Treasury have had relatively little option in the matter of their discount policy. That policy in recent years has often been directed rather by circumstances than by deliberate choice. As was recently pointed out by Mr. H. C. Macrosty: [1] "In sum, whatever the economic beliefs or the intentions of the Treasury and the Bank of England may have been, there is no evidence that any action of theirs was a material factor in deflating prices or credit. On the contrary, the history of those years seems to reveal them as deciding on their policy from moment to moment as the

[1] In an address before the Royal Statistical Society on "Inflation and Deflation in the United States and the United Kingdom, 1919–23."

immediate circumstances seemed to demand, rather than as carrying out a plan long predetermined and adhered to with fanaticism. They were, indeed, the victims, not the controllers, of events."

The Collapse of World Prices.

The evidence seems to be that the Bank of England and the Treasury have been powerless in face of the world collapse in prices which commenced in 1927 and continued up to the disastrous break of 1929–30, when the United States Reserve Banks, having failed to take adequate steps to prevent or forestall the unprecedented boom in Wall Street in the latter half of 1928, resorted to drastic credit restriction in order to break the boom and, by so doing, forced down commodity prices and upset trade all over the world.[1] Opinion in the business world changed from one of hope to one of pessimism, and serious reactions inevitably followed the decline in the American consumption of such important commodities as rubber, tin, copper and steel, which were already suffering from the effects of over-production. Wholesale prices rapidly declined, and all the hopes of a revival of international trade were rudely shattered.

But though these facts may be admitted, it would appear that the present impasse is due to more deep-seated causes than the policy of the American monetary authorities. For one thing, a collapse in prices and a period of depression culminating during 1929–30 were to be expected as the natural result of the recurrence of the Trade Cycle, the factors of which are even yet an unsolved mystery. Then there are the two primary causes noted by the International Chamber of Commerce: first, over-production of certain essential goods following the fact that the increase in the world's capacity of production has outstripped the increase in population, a circumstance due to industrial development during the War, mass production, and the desire of nations to become economically and industrially self-supporting; secondly, under-consumption resulting from (*a*) the grave

[1] See Prof. Gustav Cassel's article in *Lloyds Bank Review*, March, 1930.

agricultural crisis throughout the world, (*b*) contraction of certain important markets—notably those of Russia, China and India, where 900 millions are not only *not* improving their standard of living, but are actually consuming less per head than before the War, and (*c*) the fact that in almost all the industrial countries of the world retail prices have not fallen in anything like the same proportion as wholesale prices.

Probably still more far-reaching is the remarkably intricate question, to which Sir Henry Strakosch has so ably directed attention,[1] of the effect on world prices of the growing inadequacy of the world supplies of gold. Whereas the world stocks of monetary gold are growing at the rate of 2 per cent. per annum, and though the South African mines are showing signs of exhaustion, the business of the world is increasing at the rate of about 3 per cent. per annum, and not only does this increasing volume of business require a higher gold basis, but also relatively more gold is required because the world's Central Banks are so far showing but little regard for the need of economising the use of the precious metal and facilitating its rational distribution among the gold standard countries. No diagnosis of the present malaise could possibly ignore the fact that in 1929, the year of the sensational collapse in commodity prices all over the world, France and the United States between them not only absorbed the whole of the year's output of gold, but also made heavy inroads into the reserves of other nations.

This maldistribution and partial sterilisation of the supplies of gold have had the effect, according to Sir Henry, of forcing down wholesale prices and altering the distribution of income. The share of the *rentier* class has increased, whereas that of the producing class (including *entrepreneurs* and wage-

[1] See his "Memorandum on Gold and Prices," the *Economist*, 5th July, 1930. In this Memorandum, Sir Henry Strakosch showed that at the end of 1929, Great Britain had gold amounting to £3 4*s*. per head of the population, the United States £6 12*s*., France £8, and the Argentine £8 6*s*. The United States and France between them held, and still hold, about half the entire monetary gold stocks in existence, and the rest of the world—Great Britain, the whole of Europe apart from France, Asia, Africa, South America and Australasia—have to manage with the other half amongst them. Much the same facts and conclusions were present in a report, published in 1930, of the Gold Delegation of the League of Nations.

earners) has fallen. But the fact that retail prices and the cost of living have only sluggishly followed the downward movement of wholesale prices has kept wages up, and so placed most of the burden of the price collapse on the shoulders of the *entrepreneurs*, especially those whose industries are unsheltered (*i.e.* exposed to foreign competition) and unable to keep up the prices of their goods. As a result, many producers have been forced to suspend operations, unemployment has resulted and its adverse effects have reacted throughout industry.

His analysis, says Sir Henry, "shows that the recent fall in the general level of prices has its origin in an insufficiency in the supply of currency and credit, and that that insufficiency was brought about by the very reverse of economy in the use of the monetary gold that became available. It showed that a drastic redistribution of wealth was thus forced upon the world, that this caused the free flow of exchange to become badly clogged, with the result that the fall of general prices was accentuated and that the available amount of currency and credit became superabundant.

"It is legitimate to conclude that, if the gold standard world had been supplied with an adequate amount of currency and credit by the exercise of reasonable economy in the use of its monetary gold supply, there would have been no fall of general prices. If there had been no fall there would have been no redistribution of wealth, no clogging of the flow of exchange, no superabundance of currency and credit to supply the stimulus for a reversal of the movement, and therefore no trade cycle."

In the light of these considerations, Sir Henry Strakosch suggests that monetary policy throughout the world should be directed to maintaining stable prices in the face of the increase in production. This proposal cannot be other than acceptable to anyone with a full appreciation of the facts. The world's stocks of gold are distinctly limited, and only careful management and sane distribution can prevent the evil effects of excessive accumulation in certain directions combined with production-starving scarcity in others. As Sir Josiah Stamp has pointed out, "without control of a fundamental factor in operation, no rationalisation of technique, no freedom from restraints and burdens, no initiative in the human element, no control of public expendi-

ture, can avail to keep a complicated civilisation from drifting into peril and even disintegration."

Clearly, this explanation of the position serves to emphasise the now generally accepted fact that the world's Central Banks, by a proper exercise of their discount rate, by resort to the open-market policy in their respective countries, by refraining from a scramble for gold,[1] and by timely and adequate co-operation, can do a great deal to control the general level of commodity prices and prevent many of those difficulties which must accompany unstable price-levels.

The City's Confidence in the Bank.

The question of our general monetary policy will be reverted to in the final chapter of this book. For the moment we may leave the matter with the remark that the majority of informed people now accept without question the fact that the policy of the Bank of England itself is directed with stabilisation as its primary aim. They are equally certain that our Central Bank would have no objection to an expansion of credit directed to improve industrial conditions within the country provided it did not have the effect of raising the internal price level, or, what is from the banking standpoint the vital issue, imperilling the country's international position.

It may be said also that the policy of the Bank of England has earned the approval of most of the Chairmen of the leading banks—as witness their speeches at the 1930 Annual General Meetings. Thus, Mr. Beaumont Pease, of Lloyds Bank, in strongly dissociating himself from the recent attacks upon the Bank, said : " I do not wish to say anything further than to register my regret that, at a moment when it was highly desirable that nothing should have been done to disturb the atmosphere which was undoubtedly favourable

[1] " The countries which were driven by the logic of events to adopt the gold exchange standard had no sooner stabilised their currencies than they set about converting their foreign devisen into gold and drawing the gold back into their vaults. The appreciation of gold, or, what is the same thing, the downward trend of prices, has become a serious menace, and if allowed to go unheeded must inevitably check enterprise and retard economic recovery." Sir Charles Addis in an address on the " Bank for International Settlements " before the Institute of Bankers, 3.4.30.

to an improvement in our trade, attempts should have been made to create doubts in the minds of the uninformed that there was something radically wrong with our whole monetary system." Mr. Holland Martin of Martins Bank also paid a tribute to the "great wisdom" of the Bank; Sir Harry Goschen of the National Provincial Bank spoke in similar terms, while Mr. Tennant of the Westminster Bank indicated equally definite support of our foremost banking institution.

And, if further evidence of the large measure of confidence now reposed in the Bank were needed, reference might be made to the views of the *Economist*, which has a well-merited reputation for its impartiality on matters of currency and credit. "The question of Bank of England policy has been discussed so much of recent years that the Committee (*i.e.* the Committee of Inquiry on Banking and Finance—see Chapter IX) will be faced here with the task of sifting a formidable mass of controversial opinion. It may be said at once that the Bank's policy, whether right or wrong, has been wholly disinterested. For example, in the summer of 1929 the Bank was hotly attacked for neutralising fresh gold acquisitions by equivalent sales of earning assets. This policy was costly to the Bank itself, yet in the light of subsequent events few will deny that it was in the best interests of the country. Though the Committee may well find it profitable to consider whether the Bank's formal constitution is susceptible in minor details of revision and improvement, there is little substance in the line of attack which complains that the Bank is a 'private corporation,' actuated as such by motives of self-interest." [1]

[1] "The Bank Enquiry," 19th October, 1929.

CHAPTER III

THE NEED FOR RATIONALISATION IN BRITISH INDUSTRY

To appreciate fully the main points of criticism directed by industrialists in this country against the policy of the joint-stock banks, it is necessary to obtain some idea of the problems with which industrialists themselves have been faced as a result of the vast economic disturbance entailed by the change-over from a war to a peace equilibrium.

After the disastrous collapse of the great boom of 1920, it was very slowly and painfully realised by business leaders in this country that our industrial structure was in need of thorough re-organisation and re-equipment if foreign competition both in the home market and in markets abroad was to be adequately met. In brief, it had to be acknowledged that our industries were in urgent need of *rationalisation*, a term which, in spite of its frequent misuse and in spite of the diversity of its use,[1] simply means the elimina-

[1] "Rationalisation means different things to different people by whom the word has been employed, and has therefore no scientific value. The obvious meaning of the word is the employment of the most suitable method of organisation having regard to all the relevant circumstances. To many people, however, the word conveys the idea of conscious and deliberate co-operation among all the members of an industry or group of allied industries, and therefore implies the abandonment of the system of unregulated competition. To others the word suggests the amalgamation of competing or complementary business units and the substitution of larger for smaller competing units. The first group would say that in any scheme of rationalisation the industry would be regarded as the unit and that all proposals would be tested by their effect upon that unit. The second group would argue that the individual business would be regarded as the unit and that the industry as a whole would not necessarily be considered. The difference between these views is not merely one of emphasis: it goes deeper. The first group imply that monopoly is a pre-requisite of true rationalisation, the second imply that a 'rationalised' industry may still be competitive in its organisation." (Professor J. H. Jones in the *Accountant*, 15.2.30.)

The term "rationalisation" itself was first employed by the Germans, whose Reichskuratorium für Wirtschaftlichkeit (Board of National Efficiency), the co-ordinating body established by the German Govern-

tion of waste, achieved mainly by the re-organisation, and usually, though not inevitably, by the amalgamation of industrial concerns on the most modern and most scientific lines so as to secure greater economy and greater profit in relation to capital outlay. This implies the writing-off of existing superfluous assets, the elimination of inefficient productive units and of weak selling agencies, and the reduction of overhead costs through the economies of large-scale manufacture and co-operative buying and selling. It means improved technique and organisation, designed to secure the maximum results of co-ordinated effort, to minimise waste both of labour and material, and to make the maximum use of capital works by concentration. It involves scientific management, standardisation of materials and products, simplification of processes, and improvements in distribution and marketing. In short, rationalisation aims at the elimination of inefficiency and waste of every kind.

Many people, particularly in England, are inclined to speak of rationalisation as if it were some entirely new discovery, whereas industrialists here and abroad have been studying the process for upwards of a quarter of a century. The fact is that Europe was reduced to such an impoverished state by the World War that responsible people have been forced to apply their minds more vigorously to the question of reducing the cost of industrial production and distribution, and in this sense only has the problem of rationalisation taken on a new importance.

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ment to guide the national effort in this direction, published the following definition in order to clarify ideas on the subject:

"Rationalisation consists in understanding and applying every means of improving the general economic situation through technical and systematic organisation. Its object is an increase in the standard of living by the provision of better and cheaper goods in larger quantities. This demands a common effort by all classes of the community."

As an English observer of German opinion has recently stated, "To understand rationalisation, one must think primarily, not of self-contained establishments, but in terms of a whole industry, whether organised as a trust or, on a co-operative basis, or nationalised. It is not necessary to trustify an industry to rationalise it, nor is it necessary to eliminate completely all forms of competition, or to destroy altogether the management and administrative autonomy of particular undertakings." *

* Walter Meakin: "The New Industrial Revolution," quoted by Urwick, "The Meaning of Rationalisation."

Rationalisation does not necessarily Imply Amalgamation.

It is frequently thought that rationalisation always implies trustification and large monopolies—that the process is inseparable from rings and quotas, tariff walls and marketing agreements; that it succeeds only through the suppression of the small, individual producer and the creation of the all-powerful syndicate with interests opposed to those of the consumer. In brief, that it is a process which seeks to enslave or combat economic forces. Rationalisation, however, is by no means synonymous with amalgamation, though it often involves amalgamation and is nearly always best achieved by some scheme of co-ordination or co-operation.

The reason for this is that co-operation is the inevitable result of the realisation that the old individualism of the nineteenth century cannot challenge the growing team-work of the twentieth. The small individual unit of production was well suited to the requirements of the last century. No great harm was done then if the thousands of individual units competed fiercely with one another, since it was for a long period the only competition British manufacturers encountered, and it provided a useful spur to progressive efficiency.

But a complete change has now come over the industrial situation. British manufacturers no longer enjoy virtual monopolies. To-day other great countries are equipped industrially at least as well as Britain, and, behind the protection of high tariff walls, foreign nations are rapidly developing every form of manufacture. British producers can now find abroad all the competition they need to stimulate them to maintain and increase their efficiency, and internal competition—once a necessity—has become a luxury they can no longer afford.

The fact is that, throughout the world, manufacturers are hard put to find markets for their goods. For the time being, the world's producing capacity has run ahead of consumption; there are " too many cotton mills, too many steel

works and too many coal mines, not *necessarily* in this country, but in the world as a whole." [1]

Recognition of these facts lies behind the efforts now being made by all progressive countries to concentrate production on the most efficient units, to eliminate the superfluous and relatively inefficient concerns, and to ensure that those which remain may, by the application of scientific methods and well-planned co-ordination, attain a really competitive position in the world's markets. In the competitive struggle which, as yet, is scarce begun, only those industries can hope to survive which are organised on a scale and by methods that will ensure the most efficient production and the most economical distribution.

Effects on Individual Businesses.

Though we must in some ways deplore the resultant disappearance of individual businesses—many of which have done excellent work during their useful lives—we are nevertheless bound to face the fact that small-scale individualist units cannot compete successfully, or indeed survive, in face of the vast organisations now in operation throughout the world. The large-scale organisation has unquestionable technical and financial advantages which enable it to produce and market with a degree of efficiency that cannot be approached by the small concern, quite apart from the fact that the large supplies of capital necessary for modern plant and equipment flow far more readily to the great semi-public corporation than to the small producer of merely local repute.

Though the immediate effect of a policy of rationalisation, as of other policies of transition, is usually to bring temporary hardship to individual producers, rationalisation does not *necessarily* affect detrimentally either individual producers, individual consumers, or the community as a whole. On the contrary, it may be attended by results immediately beneficial. "True rationalisation is always directed to a reduction of costs by greater efficiency and capital methods. Pure individualism, particularly on a small scale, finds its

[1] Professor J. H. Jones in the *Accountant*, 15.2.30.

way out of these difficulties by the economic annihilation of the less fit units in the struggle for the means of subsistence. Ultimately they have to go; but in their dying struggles they enfeeble the fit and reduce the whole industry to a precarious position. True rationalisation does not defeat or hold up economic consequences, but, (1) having ascertained what is in due course inevitable, it brings about that course more quickly by definite action; (2) it does so more humanely by spreading some of the cost and the risk in a prescribed or known way; and (3) it does so with more certainty—that is, the individual businesses that now go under are not necessarily the least efficient, but they may be financially the weakest." [1]

Results of Rationalisation.

In a particularly informative pamphlet,[2] Sir Mark Webster Jenkinson suggests that, if industry can be rationalised on a sound basis, (*a*) production costs will be lowered, output will be increased, and the surplus for distribution between capital and labour will be greater; (*b*) reduction in the selling price of the necessaries of life, representing an unseen increase in the exchangeable value of labour, will bring about a higher standard of living; (*c*) as large industrial units can raise capital at lower interest rates than small concerns, the total amount paid for the hire of the capital will be less, although the return to the ordinary shareholder who risks his capital may be greater; (*d*) the greater financial security of the combine and its larger volume of trade will mean less risk of failure, or temporary closing down through lack of orders; (*e*) the greater the number of workers employed in one undertaking the easier will be the settlement of minor labour disputes without outside interference; (*f*) the greater financial resources available to the large organisation will enable more to be spent on research, permit of greater expenditure on modern plant, the employment of better brains, and a reduction in distribution costs, thus

[1] "The Present Position of Rationalisation," an Address by Sir Josiah Stamp to the Textile Institute, Bradford, 9.1.30.

[2] "Some Aspects of Rationalisation" (Gee, 1929).

reducing waste of every kind; (*g*) the larger the concern the greater will be the opportunity for promoting those with initiative and ambition; and (*h*) the movement towards large amalgamations should also lead to an improvement in the economic position of the worker in each industry.

Britain's Slowness to Change.

Unfortunately, there is every evidence that rationalisation has been long overdue in several of our leading manufacturing industries. The inbred conservatism of British producers who adhere tenaciously to methods which have served them well in the past, and who have an insufficient first-hand acquaintance with either methods or markets overseas, has been and remains the greatest obstacle to necessary change. Indeed, it became recognised that, in this country, the problem of rationalisation is first and foremost a psychological one, and that effective re-organisation was impossible until a sufficiently large proportion of those engaged in controlling industry had been educated out of the "small unit mentality" which is so marked a characteristic of our employers.

Too long we have suffered from an excess of productive capacity distributed among a number of small ill-equipped units competing with one another for unprofitable business which would not even pay the interest on their bank overdrafts. As a result, plant, machinery, processes and buildings in many of our industries are badly in need of renewal and replacement. "In the course of many hundreds of visits to British factories one has not come away impressed with their scientific modernity. Antiquated and unsuitable buildings seem to me to be the severest handicaps. It is common to find factories using buildings designed for other purposes, factories that would like to extend but cannot, factories consisting of a mass of patchy additions with partitions everywhere and floors on different levels, meaning bad supervision, poor lighting, faulty ventilation, interrupted flow of work, excessive handling, and difficulty in installing modern machinery owing to structural deficiencies and bad lay-out. To my mind far too little provision has been made

for the amortisation of buildings and plant, and we have been much too slow in scrapping and replanning." [1]

Many British industries have, of course, long realised the benefits of combination and large-scale production, and those connected with chemicals, tobacco, margarine, soap and cement are outstanding examples of important industries which have been successfully rationalised. But the Final Report of the Balfour Committee on Industry and Trade, published in 1928, left no room for doubt that a further great modernisation effort was necessary in this country.

Iron and Steel.

It is incontestable that in the iron and steel trade, for example, in spite of great progress made during and since the Great War, many of our plants are in 1930 entirely obsolete and inefficient as judged by foreign standards. The majority of our iron furnaces are small and costly to operate,[2] and most of our coking and by-product plants are in urgent need of wholesale replacement. It is true, as was reported in June, 1930, by the Delegation sent by the British Cabinet to the Continent on a tour of investigation, that, as regards efficiency and management, modernity and equipment, certain of our plants are equal, if not superior, to the leading iron and steel plants on the Continent or elsewhere, but it seems unquestionable that only comparatively few British steel works can be said to be absolutely modern in their general lay-out and arrangement of processes.

To a very great extent this position is traceable to the fact that in the iron and steel industry, as in other industries, Britain has suffered from having been a pioneer. The British steel industry was originally organised for the production of *acid* steel on the Bessemer and Siemens processes, designed

[1] "Rationalisation," by Dr. James A. Bowie, *Times Trade and Engineering Supplement*, September 13th, 1930.

[2] "Blast furnace practice in Great Britain is by far the weakest link in the chain, as is shown by the fact that her average pig-iron output is 120 tons per furnace per day, as compared to 165 tons in France, 175 tons in Belgium, 310 tons in Germany and 600 tons in the United States, where some of the recently-constructed furnaces produce over 1,200 tons daily." Mr. J. L. Replogle (U.S.A. Steel Administrator during the War) in an interview with the *Financial Times*, 9.9.1930.

for the use of hæmatite or non-phosphoric ores only. On the other hand, the new industries on the Continent and in the United States were able to begin with the later discovery by Gilchrist and Thomas of the open-hearth method of producing *basic* steel from phosphoric ores. Even before the War it had begun to be realised that this discovery made essential a reconstruction of existing plant in this country, but in 1913 at least two-thirds of our production was still acid steel.

Although the War hastened the change over to the new process, the metamorphosis was not complete in 1918, when, with the return of peace, competition from the already well-established industries abroad, which was naturally absent during the War, soon began to make itself felt. In facing this competition, our iron and steel industry has been seriously handicapped by the operation of factors outside its control. Among the more important of these are the lower capital charges in the iron and steel industry on the Continent; the wide disparity between wage levels here and on the Continent; the unprotected state of the home industry as compared with the highly protected industries abroad; and the substantially heavy burdens in the way of payments for taxation and social charges which have to be borne in this country.[1]

As a result of the operation of these and similar factors, our iron and steel industry in the post-War years found itself in a hypertrophied condition. Its producing capacity had been increased by more than 50 per cent., but it was faced with a vastly reduced market for its products. Moreover, the enormous demand for steel during the War kept in operation a great deal of obsolete plant which ordinarily would have been scrapped, and caused much necessary work on renewals and replacements to be postponed indefinitely. Thus, the post-War need for rationalisation in the British iron and steel industry was not entirely due to post-War conditions, nor was it altogether the result of inefficiency. Rather was it the result of technical changes whose effects

[1] It is noteworthy that the great bulk of our imports of iron and steel come, not from Germany, where productive efficiency is highest, but from France, Belgium and Luxemburg, where wages and taxation are lowest.

were partly delayed by abnormal conditions arising out of the War.

Unfortunately, the situation in the steel industry was detrimentally affected by the marked depression in the shipbuilding industry, and by the fact that many iron and steel firms, in order to keep going, applied themselves to various ill-assorted and ill-chosen enterprises. Hence, most of our steel plants for years had to work short-time, so increasing the proportion of their overhead costs and exhausting their reserves.

Some idea of the resultant depression in this industry may be gauged from the fact that it is estimated that 25 per cent. of the workers normally employed therein were unemployed in 1930. Further, while the world production of pig iron *increased* by 25 per cent. between 1913 and 1930, British production *decreased* by 27 per cent. in the same period. Again, whereas the world steel production had increased by 57 per cent. during the same period, British production had increased by only 26 per cent.

Thus the reason for the unsatisfactory position of our iron and steel industry is not that the demand for iron and steel is below pre-War levels, but that the conditions above referred to have tended to encourage the importation of large quantities of iron and steel at the expense of our own resources. In 1929, 9·6 million tons of ingot steel were manufactured in this country, whilst imports of steel represented a further 3 million tons. There was thus a total demand of 12·6 million tons, which, had it been wholly satisfied by home producers, would have employed them practically to full capacity.

Iron and Steel Rationalisation Abroad.

These facts are in distinct contrast to the conditions in similar industries abroad. In other leading countries—in Germany, in the United States, in France and in Belgium—comprehensive schemes of rationalisation and modernisation in the iron and steel industry have placed the majority of their plants far in advance of those in this country in regard to both size and output. According to the Balfour Report,

the average blast-furnace capacity in the United Kingdom in 1925 was about 41,000 tons per annum; the corresponding figure for the U.S.A. was 138,000 tons, and for Germany 96,000 tons.

Likewise, the Delegation [1] sent in 1930 by the Government to investigate conditions on the Continent reported that in France, thanks mainly to reparations and to the depreciation of the franc, the iron and steel industry had considerably increased its capacity and had been equipped with the most modern plant, the post-War development of the industry having been such that foreign workers had had to be imported to make up a serious shortage of labour. This development had been facilitated by the absence of effective organisation among the workers, which meant that the employer was free to make individual contracts of service and of wages with each workman. Moreover, the Delegation reported that, though schemes of social service in France are nothing like as complete as they are in this country, and wages are on a much lower scale,[2] the workers appeared to be satisfied, eager for hard work and exceedingly keen on the prosperity of their individual plant and of the industry as a whole. Similar conditions were reported to prevail in Belgium, in Luxemburg and in Czecho-Slovakia. Germany, according to the Report, was experiencing difficulties akin to those in Britain from the competition of the other countries mentioned above and from certain special causes, but, by reason of the efficiency of her plant and equipment, was nevertheless capable of a considerably increased production when conditions proved more favourable.

Apart from the modernisation of plant and equipment, a great deal has been done in the countries mentioned to reduce production costs through the amalgamation or consolidation of small individual concerns into large units, with

[1] The Delegation consisted of Mr. J. A. Gregorson, secretary of the British Iron and Steel Trades Employers' Association; Mr. R. Dennison, assistant secretary of the Iron and Steel Trades Confederation (workers' organisation); and Messrs. E. C. Ramsbottom and F. S. Flint, representing the Ministry of Labour.

[2] According to the National Federation of Iron and Steel Manufacturers, allowing for the difference in hours, Great Britain in 1929–30 paid her steel workers 100*s*. as against Germany 67*s*., France 50*s*., Luxemburg 49*s*., Belgium 47*s*. and Czecho-Slovakia 42*s*.

a consequent saving of productive, administrative and selling expenses.

In Germany, for instance, one result of the process of rationalisation is that at the present time the Vereinigte Stahlwerke (United Steel Works), either directly or indirectly, controls practically 50 per cent. of the entire German iron and steel production, and, as a result, the degree of technical improvement has been remarkable. Fuel consumption is said to have been reduced as much as 70 per cent. in some cases, as compared with 1913; the potential output of the industry per man-day was raised from 1341 Kg. at the beginning of 1925 to 1833 Kg. in May 1930, while the efficiency in steel rolling is more than 30 per cent. greater than it was in pre-War days, within the present German boundaries.[1] The position is now much the same in Belgium and France, and, of course, in the United States.

In this direction, also, we find foreign conditions in distinct contrast to those in Britain. "Up till very recently in this country about 70 per cent. of the output of iron and steel has been controlled by twenty-seven firms, some of which either have already amalgamated or are now in the process of amalgamating, reducing the effective number to about twenty concerns, which produce between them rather less than 7,000,000 tons of steel per annum—about a third of the output capacity of the United States Steel Corporation of America and about as much as the full capacity of a single German concern, the Vereinigte Stahlwerke."[2]

It is therefore not to be wondered at that, as the general result of these factors, while the production of steel in Britain increased during the period 1913–30 by only 26 per cent., production in the United States has grown by about 80 per cent., that of France, Germany, Belgium and Luxemburg—the principal producers of Central Europe—by about 45 per cent.[3] And though the home consumption of British steel has increased considerably, our export trade has fallen in the period mentioned by about 600,000 tons.

[1] *The Times*, on "The New Way in Industry," 15.5.30.
[2] "Rationalisation in Germany," the *Statist*, 3rd May, 1930.
[3] From figures given by Mr. M. S. Birkett, in a paper before the Royal Statistical Society (Vol. XCIII, Part III, 1930).

German *v.* English Currency Conditions.

A comparison of the position of the British steel industry with that of Germany is specially interesting because the differences in recent development can without doubt be largely attributed to the different currency policies pursued by the two countries in recent years.

In the years following the boom of 1920, prices in this country almost continuously declined, and, as a result, wage costs were raised, unemployment increased, capital development was seriously curtailed, and repairs and renewals were postponed as long as possible, and, even when undertaken, were reduced to the minimum necessary to keep the concerns going. In Germany, during the same period, the currency was rapidly inflated, and workers who were receiving starvation wages were employed on a thoroughgoing reorganisation of plant and equipment. Hence, with the assistance of vast loans raised in the United States, Germany managed to replace a high proportion of her iron and steel plant, which was already comparatively modern. Rationalisation in this direction began immediately after the end of the War, and though it had subsequently to pass through periods of violent change due largely to the depreciation of the currency, there is little doubt that the efficiency of the industry, which is now second to none, owes much to that depreciation. "Taking the German iron and steel industry as a whole, there can be no doubt that the inflation which wiped out all loans and prior charges, besides enabling manufacturers to reap enormous profits, rendered the problem of re-equipment far easier than in this country." [1]

Moreover, while Germany has rapidly improved her railway system by building new equipment, "we looked to economy through railway amalgamations, and, in consequence, were able to postpone renewals even longer than would otherwise have been possible. From an engineering point of view our rolling stock is, or recently was, less efficient than of old, while Germany's is far more efficient. And what is true of railways is true of industry generally.

[1] *The Times* on "The New Way in Industry," 15.5.30.

In Germany the average age of machinery, rolling stock and ships has been rapidly diminishing, while here it has been increasing. Such has been the result of a falling price-level." [1]

It must, however, be stated that there are symptoms, as evidenced at the second World Power Conference, that the processes of rationalisation in Germany are practically complete, particularly in the iron and steel and chemical industries. As a result there has been a cessation of the demand for equipment which has reverberated throughout industry, reacting adversely on those sections—especially engineering and electrical manufactures—which have effected rationalisation, and so adding to the already heavy burden of unemployment. Moreover, rationalisation in Germany has resulted in the development of such large and powerful units that it has brought about an intensification of competition between the different concerns.

THE ENGINEERING INDUSTRIES.

The general post-War depression has been markedly severe in certain engineering branches of the iron and steel industries, particularly in the "heavy" industry and shipbuilding sections, which are concerned with the production of instrumental goods and which need expensive plant and large capital. These industries are extremely sensitive to outside influences and are vitally dependent on general industrial prosperity.

The unfortunate position of the shipbuilding industry is due partly to internal factors and partly to factors outside its control. During the War, the producing capacity of the industry both in this country and abroad was greatly extended to meet the extraordinary demand for tonnage. In subsequent years, demand rapidly fell away as a result of the cessation of armament construction and the slowing up of overseas trade, while the existing yards, by reason of increased efficiency, were able more quickly to turn out such tonnage as was required. Thus the shipbuilding industry,

[1] "Industrial Re-equipment and Currency Policy," by Professor J. H. Jones, *Accountant*, 11.4.25.

once a most lucrative branch of British engineering activity, became afflicted with a catastrophic depression which served to accentuate also the unfortunate position of the associated iron and steel industries.

Similarly, those branches of engineering industry concerned with textile machinery and steam engineering have suffered a heavy decline owing to the repercussive effects of depression in the cotton, wool and other industries.

On the other hand, electrical engineering and the motor-car industry have shown considerable expansion. This can be attributed partly to the fact that both are comparatively new industries and have been organised according to modern conceptions of production, and partly to the protection afforded to them by the Safeguarding and McKenna Duties (see Chap. VIII).

The Cotton and Woollen Industries.

Probably in no direction has the need for rationalisation been more urgent than in our great cotton and woollen industries. They, more than any other British industry, have long been characterised by small, essentially conservative individual producers, with unfortunately narrow outlook, marked antipathy to interference and deep-rooted objection to change. "The greatest single contributory factor which has reduced our great cotton industry to its present parlous condition must be laid at Lancashire's own door. The structure of her productive system, and the method of distribution to the world's markets, which were well suited to the pre-War world, have been obstinately adhered to in post-War times, when a complete change-over to revolutionary principles of manufacture and marketing was being adopted by industry and commerce the world over." [1]

Both the cotton and woollen industries are characterised also by extreme specialisation—a large number of small concerns specialising in certain processes or branches of the industry or in the manufacture of certain types or grades of

[1] "Will Lancashire Recover?" by J. Arnold Jackson (Osborn Peacock and Co., Ltd.), *Business*, 3rd October, 1930.

the product—and for this reason, if for no other, they were not as readily adapted for rationalisation as other industries where the product is, by its greater standardisation, more suited to mass-production methods. Only in the so-called finishing sections (bleachers, dyers and printers) was there any attempt at combination until the post-War collapse, and recent experience has shown that the peculiarly individualist Lancashire temperament is at its strongest in the spinning and weaving sections, and has had much to do with the difficulties traceable to lack of co-ordination and co-operation so marked in these branches of the industry.

Since the cotton industry itself contributes far more than any other great industry to the total of our overseas exports,[1] it is to be expected that the depression therein should have given rise to widespread anxiety. Accordingly, in August, 1929, a Committee of the Economic Advisory Council was appointed by the Government to consider and report upon the present condition and prospects of the industry and to make recommendations as to any action which might appear desirable and practicable in order to improve the position of the industry in the markets of the world.

The Committee's investigations [2] proved certain facts that were already only too well known. The trouble in the industry is traceable to surplus productive capacity, due partly to over-expansion during the boom period after the War but mainly to the great falling off in Lancashire's trade with the Far East and South America, where the products of rapidly developing local industries have largely displaced articles of British manufacture,[3] especially in the coarser varieties. The difficulties have been accentuated by the financial chaos in the industry which was left as an aftermath of the boom period when many factories changed hands at enormously exaggerated values, and the new concerns burdened themselves with huge prior charges in the shape of interest on debenture mortgages and bank loans,

[1] During the three years 1927–29 the average annual value of Britain's cotton exports was about £140,000,000, practically equivalent to the combined total of our annual exports of iron, steel, coal and machinery during the same period.

[2] See Report, Cmd. 3615.

[3] See appended Table of U.K. Exports of Cotton Goods.

which have served continually to increase costs of production, already excessive by reason of relatively high wages, high transport costs and high taxation, national and local.[1]

In a desperate struggle to keep going, the majority of concerns, especially in the American spinning section, for years worked organised short time and, by indulging in violent competition with each other and accepting orders at any price, brought themselves to the verge of bankruptcy. In addition, the scramble for such profit as was available resulted in violent competition between the various sections of the industry—certain sections (especially the combined finishers) seeking to gain at the expense of others and so militating against the smooth working of the industry as a whole.

These conditions, again, are radically different from those existing in other countries. About 80 per cent. of the Japanese cotton industry, for example, is controlled by only four firms, which produce and market cheap staple lines in bulk. Likewise, in the United States and in other countries where cotton manufacture is of more recent development than it is in Lancashire, the industry is controlled by large-scale organisations, which employ expensive automatic looms giving a high output per weaver.

Lancashire's important rivals owe much of their success to a close study of markets, and especially to their regard for the fact that a relatively cheap product at a low price is required to meet the world demand, since the bulk of the consumers of exported cotton goods—many of whom are agriculturists—are persons whose purchasing power, always low, has been still further lowered since the War.

[1] The causes of high production costs in the Lancashire cotton industry were admirably explained by Mr. Lennox Lee at the 1930 Annual Meeting of the Calico Printers' Association. Expressing the opinion that industry was being overtaxed to pay for pensions, insurance, allowances and doles, Mr. Lee added his conviction that the cotton trade could not improve until its costs of production were materially lowered through a reduction in salaries, wages, transport costs and finishing charges. He explained that in 1913, when longer hours were worked and wage rates were lower, we were scarcely holding our own against such countries as Japan, but since then our costs have increased in every direction, and, as a result, Japanese prices are in many cases 20 to 30 per cent. lower than British prices. He mentioned that a certain type of cloth, which cost the Association 379·53*d.* to produce, cost 67·4*d.* less in Japan, where a weaver's wage of 13*s.* 6*d.* per week compared with 36*s.* 10*d.* in this country.

Clearly, the remedy for the position was to be found in following the foreign example, and in arranging, if possible, for the combination of the small units into large concerns capable of effecting economies, reducing production costs, and competing more effectively with foreign producers.

In the words of the Report of the Government Committee appointed in August, 1929, " Lancashire must choose. She can lose her trade, she can reduce her standard of wages and living, or, perhaps, she can keep her trade and her wage standard by reducing costs and improving methods. Her rivals produce for stock, use cheaper cotton, and control sales and orders. It is for the trade, employers and employed in co-operation, to decide how salvation can be found in any or all of those changes. . . . We are satisfied, from the evidence laid before us, that the British cotton industry has failed to adapt its organisation and methods to changed conditions, and so has failed, and is failing, to secure that cheapness of production and efficiency in marketing which alone sells staple goods in the East to-day."

Consequently, the Committee recommended that Lancashire should (*a*) increase the use of cheaper short staple Indian and Empire cottons; (*b*) develop ring spinning and the use of high-draft and high-speed winding machinery; (*c*) increase the number of automatic looms, and consider double shift working; (*d*) re-organise the industry in larger units not only in spinning and manufacturing, but also in merchanting; and (*e*) develop co-operative production and systematic marketing.

It had become obvious that the spinners and weavers could bargain effectively with the strong combines in the bleaching, dyeing and printing sections of the industry only by combining themselves, while, by so doing, they would ensure a better balance between the production of yarn and the outlet for it. It was certain, too, that the industry would benefit from a measure of vertical combination between the manufacturing (*i.e.* spinning and weaving branches) and the finishing sections, for, in the past, there has been obvious need for much greater co-operation and understanding between these two great divisions of the

industry. Hence, the Committee expressed the opinion that it was "of the utmost importance that well-considered large-scale amalgamations should take place," and that the amalgamations "should be large enough to secure the maximum economies from bulk production, and strong enough to obtain the finance required for the equipment of their mills with the most efficient modern machinery. . . . It is of the essence of any technical re-organisation of the industry that there should be the most careful adjustment between the various processes of production. This aspect of re-organisation, therefore, reinforces strongly the arguments for the formation of both large and strong units within the spinning and manufacturing sections and also for the establishment of a close relation throughout the various stages of production from the raw material to the marketing of the finished product."

COTTON TRADE STATISTICS

(From an article "Where Lancashire Leads the World," by Sir Ernest Thompson, Chairman of the Cotton Trade Statistical Bureau, *Financial News*, 7.5.1930.)

EXPORTS OF COTTON PIECE-GOODS FROM THE UNITED KINGDOM.
(Million yards.)

	Average. 1909–13.	1925.	1926.	1927.	1928.	1929.[1]
Total (to all countries)	6,482	4,637	3,923	4,189	3,934	3,754
India (including Burma)	2,508	1,336	1,460	1,551	1,452	1,288
China and Hongkong	587	191	194	117	210	207
Rest of Far East	574	447	319	360	335	332
Central and South America	798	582	460	444	454	481
Europe (excl. Balkans)	362	481	332	400	335	299
Near East (incl. Balkans)	824	679	392	494	399	413
Africa	316	399	310	340	354	327
Australia and New Zealand	214	204	211	220	172	204
United States and Canada	146	134	97	93	82	72

[1] Converted from square yards.

Commenting on these figures, the writer states: "The total fall compared with the pre-War level is about 2500 million square yards a year. The development of new industries which have ousted British imports in their home markets is responsible for about 1500 million square yards. The remainder, 1000 million square yards a year, has been lost through foreign com-

petition in neutral markets. The chief losses in the former group have been in India, China, Brazil and Canada. Neutral markets in which our trade has been seriously affected by competing importers include the Dutch East Indies, Egypt, East Africa, the Argentine and other South American markets."

The figures enable us to grasp the essential fact that Lancashire's past prosperity has been built up upon her markets in the Near and Far East. India and China, with their teeming millions, take colossal quantities of her goods, and in these two markets, constituting between a quarter and a third of the population of the world, Lancashire cotton goods were overwhelmingly predominant until the advent of the Great War.

INTERNATIONAL TRADE IN COTTON PIECE GOODS.

(Values converted on the mean rate of exchange for each year.)

(£ millions.)

From—	1925.	1926.	1927.	1928.	1929.
United Kingdom	150·63	116·05	110·00	107·30	99·26
Japan	36·61	40·13	37·24	33·64	39·23
France	16·24	14·28	18·84	16·60	16·16
Italy	18·38	14·56	13·31	14·12	13·71 *
United States	16·56	14·32	14·44	14·77	15·71
India	4·56	5·13	5·13	4·03	3·86
Czecho-Slovakia	10·82	10·27	11·89	11·42	10·54
Holland	8·82	7·82	7·76	8·42	8·18
Germany	5·49	4·73	4·68	5·01	5·23
Switzerland	4·54	3·52	4·34	3·90	3·60
Belgium	5·21	4·98	5·23	6·21	6·40
Poland	1·98	0·95	01·15	0·78	0·74
Total (above countries)	279·84	236·74	234·01	226·20	222·62
U.K. percentage of total	53·8	49·0	47·0	47·4	44·6

* Estimate.

In the opinion of some experts, Lancashire's Eastern and South American markets for her coarser products are permanently reduced,[1] and they urge that her salvation lies not only in re-organisation, but also in concentration of effort on the production of finer cloths for which she is happily still unrivalled in the world's markets. The Government Committee, however, stressed the importance of action to increase Lancashire's exports of low-priced articles, and

[1] See the Table appended.

rightly directed attention to the need for a vast amount of work in the direction of market research. Lancashire, unfortunately, is now suffering from the fact that her manufacturers have concentrated on production and paid little attention to selling. The latter has been left to the merchant, either here or abroad, and so there has not been that intimate relationship between the Lancashire producer and the foreign consumer which is so essential now that world marketing conditions are far more competitive than they used to be.

For these reasons, the Committee suggested much greater co-operation between the manufacturing and merchanting sections of the industry with a view to establishing a co-ordinated sales policy suited to the needs of production. The Committee expressed the opinion that the system whereby low-priced bulk goods are sent abroad by merchants only to order has failed and that, to secure the well-being of the industry, radical steps should be taken to ensure the successful marketing of such goods.

Finally, the Committee considered that immediate action on the lines suggested was imperative in view of the urgent crisis in the industry, and gave its opinion that, if any section of the industry proved recalcitrant, it would be "the duty of His Majesty's Government themselves to consider inviting Parliament to confer upon them the necessary powers."

The Yorkshire Woollen Industry.

Although the Yorkshire woollen industry is not nearly as important from the standpoint of export values and numbers employed as the cotton trade of Lancashire, the fact that it is one of our oldest established and was at one time one of our most profitable industries claims great concern for the present depression therein. Moreover, the problems with which the woollen industry is faced are very much akin to those in the neighbouring industry. During the post-War boom period there was such a great extension of productive capacity that it became far in excess of demand, although, like the cotton industry, the difficulties became much more pronounced in one division—that of woollen manufacture—

than in the other, the worsted branch. In the latter, economies have already been effected by vertical combination between the carding, spinning and weaving sections, but there is still room for considerable progress in this direction.

In the woollen branch, however, the units of production are smaller even than those in the cotton industry, and the trade has suffered severely in recent years from the effects of the world collapse in wool prices, the boycott of English woollen goods in China and India, foreign competition, short-time working, excessive individualism leading to cut-throat internal competition, weak selling and high production costs. All of these have accentuated the difficulties with which the industry was already faced as a result of the falling off in demand following the changes in fashion—especially the replacing of woollen fabrics and hosiery by artificial silk, and the introduction of the short skirt.

As in the case of the cotton industry, it was recognised that the remedy lay in rationalisation in both the producing and distributing branches of the industry. Only by greater co-operation between the small units such as must follow horizontal combination and vertical integration can the industry hope to compete effectively with the well-organised woollen industries of France and other countries and so regain at least some part of its lost position in world trade.

The Coal-mining Industry.

It is the same with the coal industry. Although on the Continent—in France, in Belgium and more particularly in Germany—the coal industry has been practically re-organised since the War, in this country, in spite of repeated disasters and widespread concern at the position of the industry, it still remains "a classical example of the misfortunes of non-rationalised industry." In spite of its geographical and geological advantages, the British coal industry remains years behind those of other countries in both equipment and organisation. Output is wastefully dispersed over a great number of small producers, the rate of production per man is lower than that in any other important country, and the methods of distribution to the consumer, with their

heavy addition to cost, are a source of wonderment to other nationals.

"It is clear that, in this industry, much depends on the progress of amalgamation, without which adequate plans for concentration of production and modernisation of plant cannot possibly be prepared and carried through. If, where the circumstances are favourable . . . plans are developed for the better utilisation of all the coke-oven products, including regional gas supplies, a large expenditure for entirely new plant in association with coke ovens will have to be provided for. In the sphere of coal-getting, merely to bring the majority of the pits which should be retained in production up to the level of the best new and modernised mines will be a task of great magnitude, involving very heavy expenditure on cutting machines, hand implements, haulage mechanism, winding gear, and new buildings and labour-saving lay-outs at the pit-top. Wider re-organisation of the underground workings which would be made possible by certain amalgamations demands the sinking of new shafts, while progress in the cleaning and grading of coal on the scale required to place the British industry on the average level of its competitors calls for a rapid increase in the number of washing or other forms of cleaning plant, and of modern screening equipment." [1]

Apart from such drawbacks due to its internal inefficiency, the industry has been severely handicapped by a number of external factors. In particular, it was subject to considerable expansion at a time when demand was rapidly declining, owing partly to intense foreign competition following overproduction throughout the world, and partly to the use of alternatives such as oil and electricity.

As a result, the productive capacity of the industry is greatly in excess of requirements, while its high costs prevent adequate expansion of its markets. It has come to be realised, therefore, that the coal industry cannot hope to revive without some attempt at the regulation of output and the control of prices, based, if possible, on international co-operation.

Absence of Unanimity among our Industrial Leaders.

In spite of the apparently almost unquestionable weight of evidence in favour of the view that rationalisation is long

[1] The *Economist*, "Re-equipment of British Industry," 25.1.30.

overdue in this country, business men are even yet by no means unanimous on the point. So we find that, while the managing director of an important shipbuilding firm expresses agreement with a statement that much of the plant in this industry is obsolete, another shipbuilder, with an apparently equal claim to speak authoritatively, declares that the industry is generally up-to-date and efficient. Colliery owners and steel masters have quite recently expressed similar contrary views, and it is therefore small wonder that the man in the street feels bewildered as he reads such conflicting assertions.

Fortunately, British industry is not without clear-sighted leaders, and some of them have not sought to minimise the urgent need for action; for instance, Mr. Lennox B. Lee, who has convincingly stated:[1] "The trade of the country has now become a national question; the time has passed for it to be merely the occupation or concern of an individual or of a group, and the determining principle must, therefore, be a combined effort of all sectional interests to a common end. Every export trade has thousands of producers and distributors competing against each other and yet not covering the ground: there is unnecessary waste of energy and expenditure; undercutting produces a state of economic insecurity; a variety of obstacles impede the attainment of the country's ultimate object, which should be to produce cheaply, and in mass, the requirements of actual and potential markets. We add to our difficulties by a system of distribution suitable only for an era of handicraft. This fight for the export trade is not one between individual units, it is between nations. We are up against the organising genius of President Hoover, the forcible personality of Signor Mussolini, the technique of the Germans, the cheap labour and growing skill of the East and the methods of Russia.

"Our competitors have been, and are, investigating, organising, educating and bringing to bear the whole resources of their respective states to obtain that complete co-operation which is essential, and, if we are to hold our

[1] In an Address on "Co-operation between Finance and Industry" to the Federation of British Industries, 9.4.30.

own, we must display similar enterprise. What we want is an authoritative lead and a constructive policy, and without these we shall go on groping with that crude instinct that something must be done, while lacking the vision or the drive to overcome our inertia."

Inadequacy of Scientific Research and Standardisation.

One extremely important reason for the inconsistency which appears to prevail in industrial circles is the absence of precise knowledge, due mainly to the backward state of research on industrial matters.

"Although considerable progress has been made during the past ten years, there is little doubt that industries in other countries are far ahead of Great Britain in the application of science to the solution of industrial problems, and in appreciating the advantage to be derived from the use of new and improved methods of manufacture.

"Without in any way deprecating the work accomplished by the Department of Scientific and Industrial Research, which has both induced industries to organise and conduct their own research by means of Industrial Research Associations, and also itself carried out important research work of national importance, it is also equally vital that the concerns engaged in industry shall themselves undertake a considerable programme of specific research for their own benefit.

"In one of those valuable Reports on 'Factors in Industrial and Commercial Efficiency' issued by the Balfour Committee, information is given of the amounts spent on research by some of the large American concerns. In 1924 the General Electric Company spent three million dollars; the Du Pont Co., two million dollars; General Motors, one million dollars, and the staff employed on research in the laboratories of these firms ranged from 250 to over 500. The research laboratories of the Bell Telephone Co. and its associate, the American Telephone and Telegraphy Co., employ a staff of 4000 persons, of whom 1800 are trained engineers, chemists or other scientific men. One of the German companies manufacturing chemical and allied products employs 2000 research chemists, and the large iron and steel corporations also spend large sums for research purposes, one concern alone devoting £600,000 to expermiental work in connection with the distillation of coal.

"In Great Britain, although considerable research work is carried on by certain industries—as, for example, the electrical and chemical trades—and tangible results have been obtained

since the War from the work of the Research Associations, the staffs employed and the expenditure incurred are small compared with the United States and Germany, and, if and when our industries become rationalised, it is essential that all the large combines should augment their research departments and attract the best brains from our universities with a view to the adoption of scientific methods of control over technical operations and the more extensive application of science to industry.

"Research work must follow on the survey of markets made by the sales organisation, which should forecast the probable lines of development required. In a commercial concern it is not the function of the research department to deal with matters of purely scientific interest, but to carry out such research work as will lead to the expansion of its trade and the extension of its activities, or alternatively to problems of production to reduce costs and to secure greater efficiency." [1]

Thus the unvarnished truth is that we do not possess adequate data on which to base anything approaching a full and reliable comparison between the present technical equipment of the depressed industries and that of the same industries in other countries which have been reconstructed to a greater or less degree in recent years. No research organisation capable of ascertaining the facts exists in this country. Even if we possessed one, it is doubtful if its staff would be able to gain access to all the sources of information, since—as Sir Josiah Stamp has pointed out—"traditional secrecy and conservatism prevent anyone from knowing the total position of an industry or the relation of its parts."

Re-organisation of Marketing Methods.

Only too frequently any discussion on the need for the re-organisation of British industry overlooks the vital fact that re-organisation of internal machinery is but one aspect of the problem of rationalisation and that the encouragement of production is likely to be of little permanent value unless it is accompanied by a thoroughgoing improvement in existing methods of distribution. This feature is all the more important in view of the fact that the result of a policy of rationalisation is to increase output and so to accentuate those difficulties attributed to world overproduction. Already

[1] "Some Aspects of Rationalisation," by Sir Mark Webster Jenkinson (Gee, 1929).

we have great difficulty in finding adequate outlets for our products. Several overseas markets wherein the British trader was once supreme are now partly or wholly closed to him, thanks very largely to the growth of tariff barriers throughout the world—a development which cannot but affect prejudicially the position of a country dependent on the export of from one-fourth to one-third of its total industrial production. This unhappy development has been markedly accentuated since the Peace Treaty added approximately 7000 miles of new frontiers in Europe, and since the British Dominions, anxious to foster their own young industries, have excluded some of our products by high tariff barriers.

Then we have to face the fact that the consumption of many commodities, both at home and abroad, is still on a scale which does not compare with that of the post-War boom period. The producer is no longer the pivot of the economic machine; no longer does the world offer markets capable of indefinite extension to a continually growing production. Consumption throughout the world is at a low ebb; the consumer now dictates, and consumption must be stimulated if productive capacity is to be improved.

Furthermore, there is the fact that certain of our leading industries, notably those connected with cotton and wool, have suffered considerably from post-War changes in fashion. Less clothing is now being worn, particularly by women, and that which is being worn is composed of more expensive tissues. Wool and cotton have given place to silk and rayon, with the result that, while the newer industries, especially those connected with artificial silk, have developed enormously, the manufacture of cotton and woollen goods has fallen on particularly bad times—so much so, indeed, that apparently the only salvation lies in a change over from the production of coarser to finer products more suitable to present-day taste and fashion. We have therefore " got to realise that our semi-monopoly—as regards at least the heavier, more rudimentary and less skilled branches of their manufacture—has gone, without any prospect of its return."[1]

[1] Mr. Hugh Tennant at the Annual General Meeting of the Westminster Bank, 30.1.29.

So we must use every endeavour not only to extend our existing products and markets, but also to concentrate on new productions and on the finer industrial processes.

In some cases the falling off in British overseas markets has been accentuated by the rapidly changing economic conditions in other countries. The best known and most significant example is, of course, the loss of Lancashire's market in the East. For years the Lancashire cotton manufacturer was supreme in his own line, not only because of the skill with which he turned out and marketed his goods, but also because the county is blessed with a climate specially suited to cotton manufacture. But Lancashire's great customers of the past, India and China, have in recent years rapidly developed their own cotton industries, and are determined to satisfy their own requirements for cotton articles. In the words of Mr. Holland Martin,[1] Lancashire's "once-vaunted safeguards of climate and skill are no longer invulnerable." Other nations have learned to reproduce scientifically the exact conditions of the damp Lancashire climate in mills situated in the most arid districts, while they have found that the highest skilled artisans and managers will move even half-way across the world if the financial inducement is sufficiently strong.

Another important point, which bears on this question of the retention of our overseas markets, is the fact that British traders are slow to recognise that their once easily satisfied customers in countries such as India and China have now become most discriminating buyers, with a wide choice of potential sources of supply and with a full cognisance of the keen competition among the exporters of many nations for their custom.

Dealing with this matter recently, Sir Harry Goschen[2] said, "We must recognise that great changes have taken place in the last five years in the national sentiment of the Chinese people. They wish to negotiate with European firms direct without the intervention of agents and compradors—a great change, and one which will necessitate a

[1] At the Annual General Meeting of Martins Bank, 1930.
[2] National Provincial Bank Annual General Meeting, 1930.

radical rearrangement in the methods and practice of our great merchant firms in that country. They are, of course, better able than I to weigh the risks and advantages involved in such a change, but if we do not show ourselves ready to meet our prospective customers it is certain someone else will."

Stimulating the Buyer.

In the past, at any rate, our exporters appear to have paid scant attention to the vital principle of overseas trade, "that the mind, the habits and the needs of the customer must be the constant and sympathetic study of those who wish to serve him, so that goods or services can be designed and produced which will supply those needs perfectly—better, if possible, than ever before." And in recent years it has become increasingly clear that "we must not be content to seek markets for the goods and services we are producing; we must design, if necessary, other goods and services that will best serve the customer. The seller must have an imaginative and informed understanding of the market." [1]

Clearly, the export trade of this country is vital, not only because it has to furnish most of the resources wherewith to pay for our vast imports from overseas, but also as affording an outlet for much of the fruit of our industrial effort.

"Great Britain depends, and must depend, for its existence on the continued export of manufactures; but it has no monopoly of production, and other countries also export in competition. Though the world as a whole is not overburdened with material wealth, the world-market for the particular kinds of goods produced in Great Britain is not unlimited. Certain goods sell best in certain markets, and such markets must be cultivated." [2] But our exporters have a great deal to learn from those of other countries in the matter of studying and endeavouring to meet the precise needs of their overseas customers. Much remains to be done in scientifically advertising our products. Our overseas publicity should be directed to emphasising the special

[1] Mr. (now Sir) F. W. Goodenough in an address at the Annual Conference of the Incorporated Sales Managers' Association, 17.5.30.
[2] "British Industries and Empire Markets," by A. J. Sargent, M.A.

qualities of our goods and should be devised so as to afford in each country the greatest degree of appeal to the particular people concerned. "America is doing well," said Lord Riddell recently,[1] "because she advertises, because she is creating an American atmosphere. Britain is not doing so well as we would like her to do because the British manufacturer, as a general rule, does not believe in advertising. It is a very extraordinary fact that if a British importer wants information about foreign markets he must go to an American advertising agency to get it. That is not as it should be. It is a very difficult thing for us to appreciate that other countries have changed during the last ten years almost in the same proportion as this country has changed. It is very difficult for traders who do not go abroad to realise that the selling methods that are required in foreign countries have changed, that advertising has advanced there as much as it has over here." On the same occasion he reminded manufacturers that periods of business depression demanded heavier advertising than sufficed when trade was booming, but he did not advocate selling effort in the face of an obvious change in consumers' habits, which had rendered a product less acceptable. What was needed was the adjustment of the product to the buyer's needs.

Stimulating the Home Market.

The necessity for a thoroughgoing marketing effort on the part of producers applies as much to the home market as it does to the export trade. A recent investigator [2] has demonstrated how the vast economic upheaval consequent on the War has brought about important changes in the distribution of income. In recent years there has been a marked shifting of income from the richer to the less wealthy classes in the community. *Real* wages have increased not only because the share of the national income now accruing to the wage-earner is larger than ever before, but also

[1] Address to the Publicity Club of London, 28.4.30.

[2] Mr. A. Loveday, Head of the Economic Intelligence Service of the League of Nations, whose views, given in the "Index" for January, 1930 (Svenska Handelsbanken, Stockholm), were the subject of comment in the *Westminster Bank Review* for April, 1930.

because prices have fallen and because the worker now enjoys far more hours of leisure than was the case twenty years ago. So we find that, following the increased spending power and greater spending time on the part of the masses, the whole character of demand has changed in relation to supply, and, in particular, has led to a perceptible transfer of demand from necessaries to comforts and luxuries. Demand, as a whole, is consequently far more *unstable* than it was before the War. A population which, having satisfied its basic needs for food, clothing and shelter, is in a position to spend a higher proportion of its income on an endless variety of comforts and luxuries is extremely susceptible to efficient salesmanship and extensive advertising. Now, more than ever before, producers have to be ready not only to *follow* immediately any wide change in taste or fashion or fancy, but also to *create* a demand for their own particular product. And in the " luxury " trades especially, producers have to realise that their most formidable competitors are not *other producers* in their respective lines, but *other industries* turning out products which make a rival claim on the choice of the consumer.

The truth of this argument received nation-wide confirmation in a great effort made throughout the country in July, 1930, to improve the home-market for cotton goods, by the organisation of a " National Cotton Week." Ten thousand shop windows displayed home-produced cotton articles, and various devices were employed to encourage their purchase. At a luncheon held on 2nd May, 1930, to herald the campaign, some illuminating references were made to the causes of the depression in the Lancashire cotton industry. Explaining that much of the business lost to the cotton trade in the home market was due to changes in fashion, Mr. F. Holroyd, chairman of the National Cotton Week, said that the sales of cotton cloth at home were less by four hundred million yards than they were before the War, due mainly to the fact that " skirts were shorter and petticoats totally eclipsed. Where our daughters to-day wear three or four yards of cotton cloth, our mothers used to wear at least ten. On the basis of one renewal every year that means

some 140 million yards less trade every twelve months." Adding that no power had contributed more usefully than publicity to the progress and extension of industry, Mr. Holroyd pointed out that, while the public benefited from advertising by finding out the most valuable and the most useful things to promote its comfort and pleasure, the consumer also benefited because the increased sales created by advertising made cheaper prices possible.

The foregoing facts reveal unmistakably the vital need for the development of consumption as well as of production, of rationalisation commercially as well as industrially and financially. They prove that it is obviously useless to spend millions on industrial re-organisation unless the most painstaking attention is at the same time being directed to sales promotion, the fostering of existing markets and the opening of new ones. The price at which we can produce, and the markets for our products, are the two essential elements of our present industrial problem.

The Handicap of Deficient Marketing Statistics.

One vitally important respect in which the British trader is heavily handicapped in his efforts to create a wider market for his products is in the serious absence of marketing statistics. So pronounced is our deficiency in this respect that it is difficult—if not impossible—for our merchants to market their goods on a scientific basis either at home or abroad.

"By contrast with our chief industrial competitors, Germany and the United States, our statistics are at least a generation behind. The fault by no means rests entirely on official shoulders; many business men and not a few trade associations are sinners as well. It is no wonder, therefore, that our industries are often forced to resort to rule of thumb for sheer lack of knowledge.

"To multiply instances of our statistical shortcomings would be easy but not particularly helpful. What really matters is that we should set to work to improve the situation. The first practical step is to ascertain precisely what material is at present being compiled. Even now many industries collect information but do not publish it—though publication would be beneficial to all and harmful to none—and a comprehensive survey should

be made of this material. The second step is for business men to state precisely what information they need and desire. The third step is to see whether the statistical departments of the Government, by small and inexpensive internal adjustment of their existing work, cannot satisfy at least some of these needs. When this stage is reached we can then think profitably about the many extensions of our knowledge which will still be vitally necessary. To achieve these ends it will be necessary to enlist the fullest aid of the business and particularly of the marketing community, and the Board of Trade might well be advised to set up a strong and representative advisory committee for this purpose.

"To-day we are rationalising our industries and reconstructing our economic organisation. A failure to rationalise our statistics at the same time would be folly. Statistics describe accurately the world in which we live and work. Without them we can only grope in the dark—while our competitors move in the full light of knowledge. Even rationalised industries cannot market properly at home or abroad unless they are accurately informed."[1]

Dealing with the same problem, Sir William Crawford[2] has aptly remarked that "We ought not to forget that our home trade is six times as great as our export trade, and at least as much in need of stimulation if British industry is to be restored to full prosperity. Yet in their navigation of the home market our manufacturers are still scarcely better served than were our sea captains before the days of charts and compasses. For example:

"(a) *Incomes.*—Even in this age of mass-production and mass-consumption, the numbers of people receiving incomes of various sizes are unknown to the manufacturers or the public, with the single exception of the comparatively small number of sur-tax payers.

"(b) *Production.*—At this period, when it is of vital importance that manufacturers should be able to budget their production in proper relation to the capacity of their markets and the extent of the competition that they may face, most industries do not publish (nor in the main do they compile) statistics showing the volume of their monthly output.

"(c) *Consumption.*—No figures at all are available for consumption, except in those cases where we import all that we consume. In these matters our Government departments are hampered by considerations of expense . . . but the business community itself must bear at least a large share of the blame

[1] See a Letter from Mr. Jules Menken to the *Financial News*, 29.4.30.
[2] Letter to the *Financial News*, 29.4.30.

for not having awakened earlier to the need for better market information, and for not having made known its specific requirements to the official bodies concerned."

RATIONALISING THE MARKET PROCESS.

The exact form of re-organisation on the selling side must depend upon the peculiar conditions in each trade, *i.e.* whether the trade is confined to home or foreign markets or whether it is divided between the two. But whatever the conditions, two essentials must be realised in any effective scheme: these are the control of sales and the control of prices. The control may, owing to the existence of independent producers, be only partial, in which case it will be less effective, and this is the chief difficulty in the way of marketing schemes where foreign competition is strong. Assuming, however, that complete control of the entire productive machinery is obtained, the ideal marketing scheme is built on well-recognised lines.

First, it is necessary to estimate the demand for the goods; this, of course, is not a fixed amount. By inaugurating publicity schemes and employing agents and representatives who know their work thoroughly it is usually possible to encourage a great expansion in demand. However, when an estimate of the demand has been made, it becomes necessary to allocate the sales in response to the demand amongst the productive units incorporated in the scheme. Usually this is done by calculating first what is known as a " basic output " for each unit—in effect the maximum efficiency output of the unit.

If we suppose, by way of illustration, that the aggregate basic output for all the units is 1,000,000 items and that the estimated demand is 750,000 items, then it will be obvious that each unit may be allocated 75 per cent. of its basic output as its quota of production for the period under review.

In this way, provided accurate estimation is made, both under-production and over-production are eliminated, production can be planned in advance and great savings can be effected. A necessary corollary of any such scheme is

that the various contracts of sale should be entered into by a central body, by whom the work should be apportioned to those units most suitable for its performance. The same central body should be responsible for carrying out whatever publicity campaigns are considered desirable, for maintaining up-to-date statistical and credit information files, for fixing prices, and, where it becomes possible, for negotiating and entering into international agreements with foreign producers.

At first sight it might appear as though such a scheme as is outlined above is possible only when the whole of the producers in an industry are willing to co-operate. To a certain extent this is so; for until all the producers have submitted to control there can be no absolute control over sales and prices. But it is possible, nevertheless, for the scheme to apply to a portion of the producers only. Obviously, such a modified scheme will not be as powerful as one having full monopolistic control, but the constituent members will nevertheless derive such enormous benefits from the co-ordination of sales administration and the availability of information on all matters respecting sales and markets that they will usually be able easily to compete with unfettered producers and eventually induce them to come into line.

One of the finest examples of rationalised marketing is afforded by the German Rhenish-Westphalian Coal Syndicate, which controls the output and sale of almost the entire production of the Ruhr coal-field, and has been able to enter into agreements with producers in France, Belgium and other parts of Germany. In contrast to this organisation we may cite the coal-marketing organisation in the Midlands of England, known as the Central Collieries Commercial Association (the "Five Counties Scheme"), which at one time controlled a large proportion of the coal produced in the Midland coal-fields and did not meet with much success.

Progress so far Achieved.

So as not to leave this important question on a note of undue pessimism, we may observe that evidence is not

wanting that British industry is gradually though slowly increasing its productivity and effecting considerable economies in operation. Information provided at the World Power Conference at Berlin in June, 1930, indicated that both in electrical manufacture and electricity supply Great Britain is definitely ahead of continental countries. Her electrical manufacturing plants were said to be superior, her best generating stations more efficient, and she was said to have more efficiently solved the problem of national co-operation than other nations who are faced with much the same difficulties. In such respects, Britain was said to have obtained an advantage of years over her chief competitor, Germany, where the average price for electric power is considerably more than it is in this country, with a prospect of an increase of this advantage on our side

Iron and Steel.—In regard to iron and steel, there is little doubt that while, in these industries especially, British industrialists have been on the whole much slower than those of other nations to realise the need for modernisation, yet much progress has already been achieved in this direction. The Vickers–Cammell Laird fusion, and the amalgamation between Dorman Long and Bolckow-Vaughan, afford striking evidence of the crystallisation which is now rapidly proceeding and which will doubtless be attended by great economies through the elimination of much overlapping and wasteful competition. Similar advantages may be expected to follow the historical reconstruction of the vast iron firm of Sir W. G. Armstrong Whitworth and Co., a re-organisation, involving financial difficulties of the first magnitude, which was made possible by an unparalleled sacrifice on the part of the Bank of England.[1]

In other ways, also, strenuous endeavours are being made within the industry to improve the position. For example, an Industrial Research Council has been set up to supervise research calculated to improve the general productive efficiency of the industry. Then the British Steelwork Association has been formed with the main object of stimulating, by means of commercial research and publicity,

[1] See Chapter VI.

the increased use of steel, while the British Steel Export Association has been brought into existence for the purpose of developing the export trade.

In the light of such developments it is impossible not to be optimistic about the future of the industry. As a world-renowned American expert [1] recently stated, " Great Britain possesses unrivalled opportunities to become supreme in iron and steel. You cannot be supreme in, say, agriculture or petroleum, but you can in steel. You have all the raw materials here—coal, iron, limestone and also shipping facilities—but you lack imagination and initiative. Some of your plants are the best in the world—for instance, the Stewarts and Lloyds tube mills and the Lysaght tinplate works—though so far they are few in number."

Coal.—The coal industry, too, has come to realise the benefits of rationalisation and of the improvement of its marketing methods.

It was not until the beginning of 1928, however, that real attempts at re-organisation were made by the industry itself with a view to meeting foreign competition. The Five Counties Scheme was the most important plan, and was intended to cover all collieries in the Midland Counties, with a combined output of about 100,000,000 tons. Briefly, this Scheme consisted of two parts, the control of output and the development of the export trade.

Much difficulty was experienced in regard to the control of output, but ultimately it was arranged that each concern should contribute a quota to the estimated aggregate demand of all the customers of the producing area. The quota was fixed as a percentage of the producing capacity of each concern, that percentage being in the same ratio as the estimated aggregate demand was to the aggregate producing capacity of all the collieries.

The second part of the Scheme included a levy of 3*d*. per ton on all coal raised and a levy of 3*s*. per ton on all coal raised in excess of the fixed quota. Out of the fund so

[1] Mr. J. L. Replogle (U.S.A. Steel Administrator during the Great War) in an interview with the *Financial Times*, 9th September, 1930, on his departure from England after investigating the position of our iron and steel industry.

provided a subsidy was paid in order to enable the exporters to meet foreign competition (especially Polish) in Scandinavia and Northern Europe. To prevent abuse of this subsidy, the export machinery was re-organised and a combined exporters' committee formed.

It was hoped that this Scheme would result in a rise in home prices to a more reasonable level by restricting output, and in the restoration of foreign markets which had been lost during the strike of 1926. In its first object the Scheme did not succeed because the quotas were fixed at too high a level and did not result in an artificial shortage. The cause of this was the over-estimation of the probable demand for coal.

Attempts were consequently made to overcome the anomalies created by the quota system by fixing prices and setting up a pool of colliery owners, but difficulty was further experienced over the question of the subsidy for exporters, and finally the whole system broke down.

In addition to the Five Counties Scheme, other proposals were adopted in Scotland and South Wales. In the former area an arrangement was made whereby production was concentrated in the more efficient pits, those owners who closed their mines or reduced their outputs being paid a subsidy according to the amount by which their outputs had been reduced. Here, again, the expected rise in prices did not materialise and the Scheme was abandoned.

The South Wales Scheme was, at first, one of voluntary price regulation, but was later amended by the institution of provisions for the regulation of output. Penalties of 2*s.* 6*d.* per ton were imposed for the production of coal in excess of fixed quotas and for the sale of coal at prices below those fixed by the Association. In its present form the Scheme was inaugurated in January, 1930, the outputs being fixed at a figure 2 per cent. below the actual production in 1929.

None of the Schemes achieved any high degree of success, and in July, 1930, the Coal Mines Act was placed on the Statute Book with a view to furthering the process of consolidation in the industry (through a "Coal Mines Reorganisation Commission"), legalising the quota system,

vitalising the marketing schemes already mentioned, and regulating hours of work and wages.

The industry is surrounded by almost insuperable difficulties, but there are indications that the marketing arrangements in regard to minimum prices have been reasonably effective. Moreover, British exports during the first six months of 1930 were 500,000 tons higher than in the corresponding period of 1929, while, on the whole, rather better prices were realised.

Cotton.—Lancashire, though very slow to change, has not been blind to her difficulties. In 1927 the Cotton Trade Statistical Bureau was founded and charged with the task of gathering data relative to the world's cotton trade, but, though it issued valuable reports and bulletins of a statistical nature, it apparently paid little heed to new methods and new ideas which were being developed in other parts of the world. This defect was overcome, however, by the formation of the Joint Committee of the Cotton Trades Organisations, which includes representatives of all the principal sections of the industry—spinners, manufacturers, finishers and merchants, together with representatives of the trades unions. From this organisation ultimately proceeded plans for greater co-operation in both production and selling with a view to placing the industry once more on its feet. It has sponsored many schemes of trade development, and was instrumental in forming the British Cotton Textile Association, whose object it is to establish an export trade in certain selected markets wherein Lancashire goods do not at present compete, and also the Trade Development Committee, which is seeking to bring about technical improvements in the industry and to find new ways of advertising Lancashire cotton goods.

While it is thus seeking its salvation in marketing propaganda and technical improvement, the industry is also pinning its faith on rationalisation. To this end, a number of its leading men, with the backing of the Bank of England, in 1929 arranged a vast amalgamation of spinners and manufacturers in the guise of the Lancashire Cotton Corporation, the complete programme of which comprises :

(1) A combination of producing units, commencing with spinning and weaving, to undertake the purchase of raw material, manufacture of cloth, and, if necessary, the sale of the completed article from the raw material to the ultimate customer.

(2) A close alliance on equal terms with finishing firms, whereby all sections should take a share in the risks of business and in the development of new trade. Such an alliance of processes is necessary whether the existing finishing concerns participate or not.

(3) The organisation of the production of standardised cloths and cloths suitable for mass production.

(4) The ultimate object of fusing the whole British cotton trade into a rationalised industry.

(5) The examination of the possibilities of international agreements for the provision of the raw material and the production and sale of cotton products with the object of removing such international competition as may be destructive of all proper order and method in these directions.

So far as combination is concerned, the Corporation, from its registration to the end of September, 1930, had examined with a view to absorption 204 companies, controlling 20,000,000 spindles. Of these, 99 companies (controlling 9,250,000 spindles and 25,000 looms) had agreed to join the Corporation, whilst negotiations were proceeding with a further 17 companies, controlling 1,750,000 spindles.

During 1930 the capital of the Corporation had been increased on ten occasions, and in September, 1930, was £3,772,995, divided into £218,073 £1 Preference, £2,976,400 £1 Ordinary, and 11,570,000 1*s.* Deferred shares. This, together with an authorised issue of £3,314,700 Five-and-a-Half per Cent. Income Debentures, had been issued to liquidators, creditors and shareholders in return for their interest in the 51 companies which the Corporation had taken over.

The Corporation was fortunate in being able to take advantage of the fall in the price of American cotton during 1930, and also benefited by large shipments of the raw material from India. To take full advantage of the position, work on the reconditioning of a number of mills was being actively planned for 1930–31. Particular attention is being paid to the utilisation of cotton waste for the production of low-quality cotton goods, and to the fixing of standard

qualities of yarn and cloth. A first-class research department has been inaugurated to forward these processes, while direct selling agencies are successfully bringing the Corporation's products to the notice of consumers in this country and abroad.

Thanks to these arrangements, Lancashire can now offer products which compete at least on equal terms with those of foreign and, particularly, Far Eastern mills, and already her yarns are replacing foreign cotton manufactures previously imported into this country. "Other results already attained promise satisfactory trading results for the Corporation when the full weight of its organisation is in being. Every stage in the resultant increase in employment and recapture of export trade will be a step to the fulfilment of the purpose of its formation." [1]

Since the formation of the Lancashire Cotton Corporation, two other combines, known as Allied Spinners, Ltd., and Combined Egyptian Mills, Ltd., have come into being on the amalgamation of a number of mills controlling in each case several million spindles.

In such directions, without doubt, is Lancashire's salvation to be found. Signs are not unwanting that, if she keeps down her prices, her former customers will be only too glad to take her goods.

Shipbuilding.—In the shipbuilding industry, unique steps to improve matters have been taken by an organisation known as the National Shipbuilders' Security, Ltd., formed by a number of leading shipbuilding concerns with the object of rationalising the industry by the purchase of redundant and obsolete yards so that production may be concentrated on the most efficient units.

The organisation, which has borrowing powers up to £3,000,000, is in no sense a combine, cartel or selling syndicate. It is merely a separate concern jointly owned by a number of prominent shipbuilding companies, formed to lessen competition between them by reducing the number of shipyards. To this end, certain yards are being pur-

[1] "Progress of the Lancashire Cotton Corporation," by Sir Kenneth D. Stewart (Chairman). *Times Trade and Engineering Supplement*, 27.9.30.

chased outright, and, when they are dismantled, their sites will be sold subject to restrictions on their future use for shipbuilding purposes.

As a first step towards the attainment of its objects, the Company purchased the well-known shipyard of Messrs. William Beardmore & Co., Ltd., at Dalmuir, Glasgow, with a view to closing it down permanently.

The scheme has the advantage from the point of view of the companies by which it was implemented that it will eliminate redundant and relatively less efficient firms in the industry more quickly than would be the case if that elimination were left to the free play of competition. But it has to be remembered that the firms concerned in the scheme will for some years have to bear the burden of interest and amortisation charges on the capital which has had to be raised for the purpose, and it is likely that their efforts will not achieve success unless arrangements are made for the regulation of competition between those shipyards which it is proposed to retain.

Problems of Rationalisation.

Rationalisation is, of course, pregnant with the most intricate problems. They arise mainly from the difficulty of finding men of sufficient ability to control vast enterprises once they are in being. Indeed, the whole problem of management raises innumerable issues.

"The ultimate success of a combine will depend on how far it can get its *personnel* to think and act with zeal and enthusiasm, and to co-operate with one another. This is largely a question of decentralisation, of blending spontaneity with discipline. A rigid central control will ossify the staff; too great liberty will mean licence. The problem is how to secure that all will pull in the same straight line, while yet giving each man a job that gives him opportunities of judgment and ambition. . . .

"The post-War world presents many new and puzzling problems to the business administrator. As this complexity develops, and the knowledge needed becomes wider and more scientific, the degree of education needed to apply it to the concrete puzzles of business becomes greater in proportion.

"Are we in Britain doing anything adequate to meet this situation? Is there not a lack of high administrative talent, of spaciousness of outlook, of resilience among British business

men? Instead, do we not find an individualism that looks on co-operation almost as weakness, and the tortoise's instinct to hold fast to the ground lest it should be thrown on its back? Is it not common to find myopic vision, the jealous guarding of secrets, the blight of nepotism, the lack of the scientific outlook, and an imperviousness to light from the outside? . . .

"Rationalisation is a young man's job. The old men are never likely to sit down and study anew their industrial environment. Yet they are likely to cling to power. It will be a difficult and unsavoury task, requiring great moral courage, to rearrange responsibility, and to retire pensionable or redundant directors and executives. Nevertheless this, 'the Hell Period,' as it has been called, has got to be faced." [1]

On the same point, Lord Melchett stated that, "The real problem of rationalisation and the merging of big enterprises consists in effective central control with sufficient elasticity lower down to allow action to be neither arrested nor delayed, and to prevent the chiefs at the head from being encumbered by too much detail, at the same time keeping a grip on all essential features of policy, such as finance, expenditure, sales and relations with other great groups of industrialists throughout the world. There never was a period in the world's business history in which it was more necessary to enable large decisions to be taken rapidly. Time most frequently is of the utmost importance. 'Yes' or 'No' must be given at once. And on these occasions the groups of far-sighted and powerful men who are prepared to risk a very considerable part of their fortunes and who will be inclined to ask shareholders to do likewise are an essential necessity to our modern economic life. That you can destroy with impunity the existence of such people or substitute any other form of machinery to fulfil their rôle is one of the most dangerous heresies and fallacies of a certain class of economic thought." [2]

INCREASED UNEMPLOYMENT FOLLOWING RATIONALISATION.

Another vital problem is that with which Germany, particularly, is now faced after five years of intensive rationalisation—that of finding employment for the thousands of

[1] "Rationalisation" (VI and VIII), by Dr. James A. Bowie, *Times Trade and Engineering Supplement*, 16th and 30th August, 1930.

[2] At the Annual General Meeting of Imperial Chemical Industries, Ltd., April, 1930.

workers with whose services re-organised industry is able to dispense. Already we in this country are feeling similar effects, a fact only too clearly indicated by the accompanying table from the *Statist* of 21st June, 1930.

On the position disclosed by these figures the *Statist* makes the following comments:

"The outstanding fact revealed by this table is that British industry, as represented by these ten important groups, was during the first quarter of the current year producing about 11 per cent. more, but employing 8 per cent. fewer workers than in 1924. Here is perhaps the clearest evidence that can be adduced of the progress of rationalisation in industry. Over the five years covered by this comparison of employment and production of industry, the *per capita* output of the worker has increased by no less than 21 per cent. A year previously the corresponding figure was about 18 per cent., so that we have here some evidence of the progress made in the rationalisation of industry over the twelve months to March 30 last, and of the part which it has played in the growth of our unemployment figures. It will be seen that in all groups of industries other than that comprising food, drink and tobacco, this characteristic of a marked increase in productivity per head of persons employed has made itself felt over the past five years. In coal-mines and quarries the expansion in this factor has amounted to 34 per cent., though in this particular case the increase in working hours in 1926 led to an increase in *per capita* productivity. In the iron and steel industry the increased productivity per worker has amounted over the past five years to 45·4 per cent. In the other groups this increase in *per capita* productivity over the past five years has been as follows: non-ferrous metals, 22 per cent.; engineering and shipbuilding, 23·7 per cent.; textiles, 4·1 per cent.; chemicals, 6·5 per cent.; leather, boots and shoes, 19 per cent. In the food, drink and tobacco trades, which form the only exception to this general tendency, the productivity of workers actually employed appears to have fallen by 4·4 per cent. . . .

"These remarkable figures indicate that the increase in the productivity of each worker has gone hand in hand with an increase in the number of unemployed."

Supporters of rationalisation argue, of course, that workers who are thrown out of employment as a result of the process are quickly and easily absorbed in the new spheres of work which are almost invariably created, as, for example, for the manufacture of the more complicated machinery required

STATISTICS OF PRODUCTION AND OF INSURED PERSONS EMPLOYED AND UNEMPLOYED.
1924 : 1929 : 1930.

Industries.	Average insured people actually employed in first quarter.					Average insured people unemployed in first quarter.					Index of production. (1924 = 100.)	
	1924.	1929.		1930.		1924.	1929.		1930.			
	Total in 000's.	Total in 000's.	% of 1924.	Total in 000's.	% of 1924.	Total in 000's.	Total in 000's.	% of 1924.	Total in 000's.	% of 1924.	First quarter of 1929.	First quarter of 1930.
Mines and quarries	1,346	1,028	76·4	1,023	76·0	49	192	392·0	158	323·0	98·9	102·0
Iron and steel	200	163	81·5	155	77·5	44	38	86·3	46	104·5	112·4	112·8
Non-ferrous metals	67	59	88·1	58	86·6	6	11	183·0	14	233·0	115·7	105·7
Engineering and ship-building	1,561	1,572	100·7	1,583	101·5	300	196	65·3	227	75·7	120·0	125·7
Textiles	1,172	1,154	98·5	1,039	88·7	159	156	98·2	276	173·6	102·0	92·4
Chemicals	198	202	102·0	200	101·0	19	13	68·4	18	94·8	108·3	107·5
Paper and printing	328	356	108·5	364	111·0	25	18	72·0	23	92·0	*	*
Leather, boots and shoes	194	174	89·8	177	91·2	21	28	133·4	25	119·0	100·3	108·5
Food, drink and tobacco	454	464	102·3	460	101·4	51	44	86·3	53	104·0	97·5	96·9
Gas and electricity	165	152	92·2	151	91·6	11	11	100·0	11	100·0	*	*
Total	5,685	5,324	93·7	5,210	91·6	685	707	103·3	851	124·4	110·5	110·9

* Complete information not available; but partial data incorporated in calculation of total index-numbers.

for rationalised factories. But experience proves that the immediate effect of rationalisation is always to cause hardship to the working classes pending their re-absorption into industry, and it is natural, therefore, that " while politicians, economists and statisticians will assert the inevitability of rationalisation, those whose vital concern lies with men and women must aim at regulating such of its tendencies as threaten injuriously to affect either personal opportunities or outlook." For the trade union leader, in particular, " even though he clearly apprehends the necessity for mechanical and commercial expansion, the outstanding problems are those human ones relating to the maintenance of physical efficiency, the development of personal initiative and capacity, the proper reward of effort and the right use of leisure." [1]

The facts, as Professor T. E. Gregory has pointed out,[2] are that in the present capitalist organisation of society, inventions and improvements which ultimately benefit mankind always entail disadvantage to some members of the community. But this should not be any deterrent to us in this country who are engaged in a competitive international trade, and measures must be taken to hasten the proper distribution of gains and losses, as, for example, by the encouragement of greater mobility of labour. There is little doubt that in due course the problem will be solved, and general satisfaction has been felt at the announcement at the Trades Union Congress in August, 1930, that a definite scheme of consultation between the trade unions and the leading employers' associations had been arranged with the object of softening as much as possible the effects of rationalisation on the working classes. And to quote Professor Gregory's words, " One must rest one's hopes on the known elasticity and responsiveness of capitalistic society; an organisation which was capable of surviving the shocks of the War and post-War period is hardly likely to perish

[1] Mr. W. A. Appleton, Secretary of the General Federation of Trade Unions, in his Annual Report, 1929–30.

[2] " Some Economic and Social Aspects of Rationalisation," an address before the Economic and Statistical Section of the British Association, September, 1930.

because it is learning to turn the arts of production to still better use in the future than it did during the last 150 years."

The Need for Patience.

It is clear, therefore, that, while a real beginning has been made with the task of re-organising British industry, and though much has been done in the direction of cutting out the dead wood and of proceeding through sacrifice to efficiency, we shall have to exercise much patience before tangible improvement becomes evident.

There can be little doubt that rationalisation has contributed in no small degree to the recent growth of production, though its major benefits have yet to be realised. Rationalisation suffers from the drawback that its disturbing effects show themselves sooner than its advantages. Its immediate effects are dislocation and usually unemployment, and its benefits are not realised until the new conditions have had time to operate and to settle down. So in the Lancashire cotton industry, where rationalisation is at last making headway, scarcely any of its benefits are yet visible. Likewise much time must elapse before the economies of the recent rationalisation process in our iron and steel, shipbuilding and coal industries can make themselves felt to anything like their full extent.

But, whilst we must deplore the hardship inevitably caused to individual producers and workers, and to the community at large while it awaits the longed-for return of prosperity to its great industries, we can at least content ourselves with the thought that it is too much to expect even the most painstaking labour of a year, or even of two or more years, to solve the problems of a decade.

CHAPTER IV

THE CONTINENTAL SYSTEM OF INDUSTRIAL FINANCE: INTERFERENCE IN INDUSTRY

On the Continent the development of banking has a history entirely different from that in Britain, and industrial banking in the leading continental countries is very highly organised. Generally speaking, the cheque system is not strongly developed, and the continental banks are consequently not under the same necessity as are the banks in this country of maintaining a high proportion of liquid reserves. Hence they are able to employ their funds not only to finance industry through the medium of short-term loans for current needs, but also to provide most of the investment capital which, in this country, is furnished either by the private fortunes of industrialists or, through the London Capital Market, by a mixed group of investors comprising promoters, directors, shareholders and debenture-holders. Moreover, bankers and industrialists on the Continent are closely associated as partners or co-directors of the concerns in which they are both financially interested. Directors of the banks serve on the boards of industrial companies, and so apply their experience and special knowledge for the benefit of industry in all that affects its financial position and commitments.

GERMAN BANKS AND INDUSTRY.

These features of continental banking are specially marked in the case of Germany. In that country, capital for industry is provided by the banks in two ways: (1) by the issue of bonds and the subsequent utilisation of the funds thus obtained to grant long-term loans to industry secured on the assets of the borrowing concerns; and (2) by the

investment of their own funds, directly or indirectly, in shares of industrial concerns. The second of these methods gives the banks actual control in certain cases, and each of the four large banks—Deutsche Bank und Disconto-Gesellschaft, Dresdner Bank, Darmstädter und Nationalbank (known as the "D" banks) and Commerz- und Privatbank—has extensive industrial connections which carry with them a strong hold on certain branches of German trade and industry.

An important reason for this position is that the private fortunes of self-made business leaders played a relatively small part in Germany's early industrial development. The industrial revolution came much later in that country than it did in Britain. When it did come, it was accompanied by far more violent change, and the capital required to finance the new transport and industrial undertakings was much larger than had been required in Britain half a century before. Before this industrialisation, Germany was a poor agricultural community with few or no organised financial agencies, and the industrial revolution found the country with relatively little accumulated capital wherewith to meet the vast needs of a rapidly spreading industry and of the scientific development of her resources.

To meet these conditions, banks were established with the avowed object of financing industry by the investment of capital at first subscribed by the proprietors and subsequently attracted from depositors at relatively high rates. The first of such banks (A. Schaffhausen'scher Bankverein) was founded in 1848, and, as the industrial development of the country proceeded apace, so the banks extended in all directions. But they confined themselves to no particular type of business, as did their prototypes in Britain. Their business was essentially of a mixed character. They financed new industries by lending money on mortgage and debentures; they encouraged the formation of new companies and the conversion of partnerships into joint-stock concerns; they initiated new enterprises and found the necessary capital either by themselves subscribing for the shares or by underwriting the shares and issuing them for public subscription;

and they safeguarded their interests in the business of the new concerns by nominating directors to represent them on the supervisory boards of the various companies. In turn, large manufacturing groups became sufficiently powerful to be able to demand representation on the boards of the banks and were allowed to nominate bank directors, thus establishing a still more intimate contact between industry and finance in all its bearings.

Apart from this peculiar development of the German banking system, the capital market in that country has been far more prominent in financing industry than it has been in Britain, and since most of the public issue business naturally passed through the hands of the German banks, the latter came to give the lead to their investing customers by bringing industrial issues to their notice and by actively suggesting likely outlets for the investment of surplus funds. As a result, the banks were obliged, in the interests of customers who invested in the issues sponsored by them, to exercise some degree of supervision over the direction of the industries concerned.

Then there is the fact that, in pre-War days, the German banks worked with a high proportion of capital and reserves, and were thus far more free than English banks, with heavy demand deposit liabilities, to invest their funds in long-term loans to industry, and either to regard such loans as permanent investments or to take them up with the object of offering them subsequently for public subscription.

German Banking Specialisation.

As the combined result of these factors, German industry is now fostered by a number of banks each specialising in the financing of a particular industry, as, for example, the Bank für Textilindustrie and the Bank für Brauindustrie. These institutions may be described as fulfilling a rôle halfway between that of a bank as we know it in this country and that of an investment trust. Moreover, many of what we should regard as the usual banking functions are concentrated in the hands of specialised institutions. Thus, mortgage business is almost monopolised by *Pfandbrief* and

Hypotheken banks; municipal finance is attended to by *Stadt* banks; small savings and loans are arranged by *Spar, Raiffeisen* and *Genossenschaft* banks, and so on.

In financing large organisations and important municipal bodies, the banks work on what is known as the "Konsortium" system. In practice, this means that whereas *short-term* or *current* finance is supplied by single institutions, the financing of important *long-term* operations is usually—though not always—shared between a syndicate of banks, working in co-operation. The syndicate undertakes all business in connection with the issue of a block of capital for the particular undertaking concerned, while each member bank accepts an agreed quota of the issue, and, when the shares are finally disposed of, accepts its share of the profit or loss and of any remaining securities in proportion to its agreed participation. In this way the banks are able to distribute their risks, while the industrialists have the advantage of exceedingly strong financial support.

Bank Representation on Industrial Boards.

Close connection between the syndicate banks and the concern financed is maintained by the appointment to the Supervisory Board (*Aufsichtrat*) of the concern of representatives of the syndicate whose main functions are to approve important financial operations and to endorse the annual report and accounts of the undertaking. "The general duty of the Board of Supervisors, as defined in Section 246 of the *Handelsgesetzbuch*, is as follows: 'The Board has to watch over the conduct of the company's business in all its branches, and for this purpose to keep itself informed of the company's affairs. It has to examine the yearly balance sheet and any proposals brought before the General Meeting, and to report thereon.' Beyond the right to summon special General Meetings, the law gives the Supervisors few powers of direct intervention in the company's affairs; but more extensive powers may be conferred upon them by the company's articles. In fact the tendency has been to require the concurrence of the Board of Supervisors in the decisions of the Executive in an increasing

number of matters, and thus to increase the importance of the former at the expense of that of the latter." [1]

The representatives of the banks are drawn from the ranks of Directors, Managers, Department Heads and Branch Managers, who keep in permanent touch with the organisation to which they are attached, and usually, though not always, conduct the financial negotiations between the undertaking in question and the banks.

This important measure of contact between the banks and the organisations in which they are directly interested [2] " is an important element of security for the banks. They do not receive information only when matters are really bad. . . . They are in a position to make their influence felt considerably before this stage is reached, and to initiate and suggest re-organisations, amalgamations and similar remedial measures much earlier than English banks, which can interfere and, as a rule, are informed only when matters have got really serious. Acting as they do in the capacity of financial advisers, they can make suggestions without arousing resentment, and their experience of conditions in other industries and in different firms in the same industry naturally stands them in good stead. In England, on the other hand, there is often a tendency to look upon interference by the banks as a disgrace, as a sign of potential insolvency—a frame of mind which is certainly not conducive to permanent confidential relations between banks and their customers. Incidentally the confidential relations between bankers and their customers in Germany find apt expression in the fact that many companies hold their shareholders' meetings and board meetings in rooms placed at their disposal by their banks." [3]

Thanks to such arrangements, the German banking system as a whole has been, and continues to be, of the greatest assistance to German industrial development. The banks

[1] " Joint Stock Banking in Germany," by P. Barrett Whale (Macmillan, 1930).

[2] The Central Board of the Deutsche Bank is said to be represented through its members on the Boards of over 200 industrial and commercial companies.

[3] The *Economist*, " Banks and Industry in England and Germany," 15.3.30.

now undertake every kind of credit operation, including advances on personal security, and the assistance of company flotation. As the result of either deliberate participation and intervention, or normal credit relations, the banks have obtained a large degree of control over the general policy of industry. The German bankers participate in the risks and responsibilities of their clients to an extent which British banking tradition would not tolerate. "The representation of banks (on the Supervisory Boards) is important not so much as an independent source of power as a means by which their other powers are rendered more effective. Once a bank has obtained influence over a particular undertaking in one or other of these ways, the power to affect the distribution of its orders gives the bank a lever in dealing with other industrial concerns. . . . The ordinary industrial (or commercial) firm of moderate means found its freedom of action to a great extent conditioned by the good-will of its bank, even when in a sound and fairly prosperous state. If it happened to fall upon bad times, it was likely to lose this freedom entirely and be compelled to accept any scheme of reconstruction or fusion which the bank might choose to dictate." [1]

The inception of the concentration movement in Germany far earlier than in other countries, and the subsequent development of her closely knit cartel system, were largely due to the identification of the interests of banks with certain industries; and while, in most cases, the cartels have become powerful enough to be largely independent of the banks, in certain cases the banks have retained control.

Much interesting information on this position has been afforded in consequence of the researches of the German Enquête-Committee into post-War changes in the country's industrial structure and organisation. It has been shown that in Germany, as in other continental countries, the dearth of investment capital has accelerated industrial concentration by forcing the concerns involved to obtain the requisite financial assistance from the banks—the only large reservoirs of capital. The close relationship between German

[1] "Joint Stock Banking in Germany," by P. Barrett Whale (Macmillan).

banks and industry has indeed proved a decisive feature in fostering the systematic policy of amalgamation. This is unmistakably proved by the fact that the larger concerns, in close connection with the banks, have been rationalised with much greater speed and efficiency than the smaller concerns. Indeed, the latter have been so seriously handicapped by lack of capital that the banks have been compelled to adopt special measures to remedy the deficiency.

There is not the slightest doubt that the remarkable recovery of German industry and its efficient organisation after the calamitous depression of 1925-26 would have been impossible but for this close relationship and co-operation between the banks and industry. In some cases rationalisation has been directly due to banking initiative, if not to banking pressure implied in the power to withdraw credits unless re-organisation were effected. In this regard, the financial power of the German banks has been used to great advantage in overcoming those only too frequent obstacles to rationalisation—the inbred conservatism and inertia of industrialists themselves—and this power must have been all the more effective for the reason that the necessary finance had inevitably to be obtained, either at home or abroad, through new issues sponsored by the leading banking institutions.

German Banks and Industrial Issue Business.

The latter fact is of prime importance. In England the issue and finance houses stand on their own legs. They rely on their own reputation to ensure the success of public issues for which they are responsible, and too often—as was sadly proved in the Hatry crash of 1929—this reputation is worthless. In Germany, however, important issues have little chance of success unless they are openly sponsored by one or more of the leading joint-stock banks, or by one of the principal private banking institutions, and in this way the public have the added security implied in the fact that no substantial bank will permit its name to appear on a prospectus unless it is satisfied regarding the soundness of the concern and the reasonableness of the issue.

Moreover, the financial backing implied in the support of the banks is, of course, immeasurably greater in the case of the German issue houses than it is in the case of the trust and finance companies of the City of London, while the close connection between the German issue houses and the banks and the industries for which they specially cater gives them a much closer and more permanent interest in the well-being of the concerns whose issues they sponsor.

Belgian Banks and Industry.

Belgium, too, owes an inestimable debt to her banks for their services to industry. Unlike England, whose early industrial concerns obtained adequate finance from private capitalists, Belgium long suffered from a dearth of capital, and, as in Germany, the banks were the only source from which considerable supplies could be obtained. Hence, at a comparatively early stage, there was a marked tendency to a close relationship between the banks and industry. Indeed, the Société Générale de Belgique, created in 1822, was the first joint-stock banking company in Europe to adopt an industrial policy involving some degree of control over the various industrial concerns in which it was interested.

The original functions of the Société Générale were to provide capital: (*a*) for the amalgamation and re-organisation of existing concerns in order to reduce competition between them and increase their productive activity; (*b*) for entirely new enterprises; and (*c*) to enable undertakings in which it was interested to compete more successfully in foreign markets.

In spite of considerable opposition and the establishment of several new banks formed largely on its model—especially the Banque Nationale de Belgique—the Société Générale has continued to flourish and to maintain its pre-eminence in the industrial sphere. It has encouraged amalgamation and rationalisation and, in times of over-production, has even gone so far as to control the output of industrial enterprises in which it was directly concerned.

Since the War, the marked interest of the Belgian banks

in industry has developed extraordinarily, and, thanks very largely to the part played by her two leading banks, the Société Générale and the Banque de Bruxelles, Belgium has been able to carry out post-War industrial reconstruction on co-ordinated lines with the minimum of economic waste, and without confusion, over-capitalisation or over-production. Thus, the Société Générale, through its controlling interest in the leading concerns in the Belgian coal industry, has done much to introduce into that industry co-operative marketing, systematised restriction of output and economical centralisation of coking and by-product plants. In like manner the Banque de Bruxelles, operating through a subsidiary holding company, the Compagnie Belge pour l'Industrie, has done yeoman service in connection with industrial rationalisation.

The close association between Belgian banks and industry has been fostered by many factors, not the least important of which is the law. For example, an Act of 1927 granted fiscal relief to those business consolidations which had their principal establishments in Belgium, with the result that the banks were stimulated to form mergers among themselves and to initiate the amalgamation of industrial enterprises previously under their separate control.

The operations of the banks in recent years have also been facilitated by reason of their position as the only sources of floating capital, which was markedly scarce in Belgium during the post-War period of reconstruction when the funds made available for industry from war compensation and other channels were rapidly swallowed up by heavy expenditure on capital account. The banks alone were in a position to supply the long-term credit facilities essential to enable the Belgian industrialist to compete successfully in markets subject to intense and growing competition from overseas. In this regard the position of the banks has been materially strengthened by the large increase in their deposits resulting from the remarkable stimulus which the War gave to saving and to the development of banking habits among the Belgian people.

The extent to which industry in Belgium has thus come

to be dominated by her banks is even more pronounced than in Germany. "At the present time the banking world in Belgium is dominated by the Big Five. In addition to the Société Générale and the Bank of Belgium, which is now primarily an organ of monetary control, there are La Mutuelle Solvay, La Banque de Bruxelles and the Boerenbond. La Mutuelle Solvay performs the functions of a holding company and has substantial interests in the chemical, coal and several of the new industries. In its industrial operations it often acts in conjunction with one or more of the other big banks. La Banque de Bruxelles has substantially increased its industrial holdings since the War and has formed several agencies, and a holding company particularly concerned with the Congo trade."[1] The Boerenbond (Association of Peasants) is closely associated with the agricultural industry and organises in connection with village and rural communities undertakings which provide food and electrical and chemical supplies.

In addition to these five leading banks, there is the Banque Belge du Travail (Belgian Labour Bank), which, although less important from the industrial point of view, is performing a useful function in providing credit for the co-operative undertakings of the Belgian Socialist Party. It has taken a particular interest in the textile industries.

These banks as a whole have played an active part in the movement towards vertical combination in Belgium's heavy industries and in the fusion of interests between her coal and iron and steel concerns. They have also been instrumental in rationalising the chemical industry, in which six large amalgamations have taken place recently, the most important being the Union Chimique Belge, established under the joint supervision of the Société Générale, the Banque de Bruxelles and the Mutuelle Solvay. Other industries which have been prominent in the amalgamation movement under the auspices of the banks are the electric power supply industry, the blown-glass industry, and the mechanical engineering industry. It is estimated that the Société Générale and the Banque de Bruxelles control between

[1] *Economist*, "Banks and Industry in Belgium," 23.11.29.

them companies whose total capital amounts to 10 billion francs, which is about half of the total nominal capital of all Belgian companies. These two banking groups are also stated to control as many as ninety colonial enterprises.

Banks and Industry in France.

In France, also, the banks are closely associated with industry. The large French banks are classified as *Établissements de Crédit,* which may be compared with the "Big Five," and carry on a type of business similar to that of English banks, and *Banques d'Affaires*, or Investment Banks, which are closely connected with industrial concerns and assist them very much on the lines of the German banks, partly by participating in their capital and partly by placing their bonds and shares with the public. The most important of the Banques d'Affaires are the Banque de Paris et des Pays-Bas, the Banque de l'Union Parisienne, the Crédit Mobilier and the Banque Française pour le Commerce et l'Industrie. The nearest English equivalent to this type of institution is the investment trust, though a Banque d'Affaires also undertakes many of the functions performed in this country by a joint-stock bank.

The activities of the French banks have not been confined to domestic industries, but have extended to investments in foreign countries. Thus, in 1914 these banks held securities in the metallurgical, electrical and transport industries at home, as well as large holdings of foreign government and industrial securities. The War, however, put the banks holding foreign securities in a position of great difficulty, and the Banques d'Affaires, in particular, had to write down very considerably the book values of such assets. This experience naturally made the banks somewhat averse to overseas investment, and tended to strengthen their interest in home investment, a change of policy which was accentuated by the cessation of foreign issues, when the banks were obliged to find outlets for their funds by huge investments in the new industries, *e.g.* munitions and chemicals, which grew up as a result of the War. Since the War, the Banques d'Affaires have become more

and more closely connected with industry through representation on industrial boards, as, for example, on the boards of the leading armament firms, where the banks are well represented. One of the most recent spheres of operation has been the oil industry, where the Banque de Paris et des Pays-Bas, for instance, working in conjunction with the Standard Oil Company, has founded a European subsidiary company—the Compagnie Standard Franco-Américaine. In the same sphere, the Banque de l'Union Parisienne with the aid of the Banque de Paris et des Pays-Bas has founded the Société de Pétrole. Again, the iron and steel industry of France has been welded into powerful groups by the banks, while the development of water-power resources to make France independent of foreign coal supplies is also in the hands of the Banques d'Affaires.

The French banks have two other important fields of operation. The first of these lies in the economic exploitation of the French colonies. Up to the middle of the War period, French public opinion was little interested in colonial expansion, but when this outlook changed with war-time territorial acquisitions, companies were established by the French banks to grow cotton and other staple commodities in the overseas possessions. Secondly, since the War, the Banques d'Affaires have undertaken a policy of economic penetration in the newly-constituted countries of Europe. For example, the Banque de l'Union Parisienne, which before the War had penetrated Russia, has now turned to Poland, Czecho-Slovakia and Hungary. In Hungary it has a large share of control in an important bank at Budapest, where it has created an important holding company, the Union Européene et Industrielle, through which it is connected with the armament firms and coal-mines of Central Europe. There exist also a number of purely industrial banks, such as l'Union des Mines, the function of each of which is to finance a particular industry.

"This locking-up of a large proportion of a bank's assets in investments in industrial shares or 'participations,' as they are called in France, may be convenient from the point of view of the industry concerned, but it is an uncertain source of profit

for the bank. A depression in trade will appreciably affect the bank's income from dividends, and a fall in Stock Exchange values will diminish the real value of its assets and negative the chance of profit-taking by selling its investments in the market. . . . Thus, although industrial banking was very profitable in the boom years immediately after the War, many institutions in France suffered severely from the fall in industrial share quotations in the following depression, and serious losses have had to be charged to profit and loss." [1]

The French banks, like the banks in this country, have been subjected to considerable criticism on the ground that they do not adequately meet the needs of the small trader. Even before the War, in 1911, a Commission was appointed to investigate the problem of co-operative credit for small traders, and it proposed that a central institution should be set up in Paris with power to grant long-term credit facilities. Controversy arose over the question as to who should supply the necessary capital, one group arguing that it should be provided by the joint-stock banks, while another considered that it should be subscribed by the State. Short-period credit for merchants, industrialists and manufacturers for business purposes is now provided by the Banques Populaires and the Sociétés de Caution Mutuelle, but, so far, no provision has actually been made for long-term financing.

On the other hand, the small trader has been greatly assisted by the fact that, in 1920, when the charter of the Banque de France was revised, it was arranged that bills endorsed by the Sociétés de Caution Mutuelle should be eligible for rediscount by the central institution. The extent of this assistance is apparent when it is realised that about one-quarter of the discounts and rediscounts at the Banque de France are of bills for amounts of 100 fcs. and less.

SWISS BANKS AND INDUSTRY.

In perhaps no other country is the connection between banking and industry so close as it is in Switzerland. The *Trust Banks* (such as the Union Financière de Génève) specialise in the issue of their own bonds and utilise the proceeds partly to grant long-term loans and partly to take

[1] "Colonial and Foreign Banking Systems," *le Cheminant*, p. 115.

participations in the capital of industrial enterprises. And Switzerland also has a number of specialised undertakings (such as the Banque pour Entreprises Electriques) which interest themselves in one industry only.

Austria and Czecho-Slovakia.

" Joint-stock industrial enterprise in the territory of the former Austro-Hungarian Monarchy is the child of the commercial banks and their founders, the private ' banquiers ' of Vienna, Trieste and Budapest. . . . Most of the joint-stock companies had either been created by the banks or at any rate could not have been founded without their help, the reason being that there was no class of investors in industrial securities, as has long been the case in England. . . . The average Austrian—whether trader, small craftsman, or manufacturer—obtained the necessary capital mostly through the savings banks and by the device of the Société en Commandite, while his current monetary transactions were carried on in cash or through the Post Office Savings Bank. But the commercial banks played a most important rôle in the general business life of Austria mainly as large discounters of the bills and book debts of the Austrian trader. . . . The average Austrian himself had no banking account and distrusted the Stock Exchange, while, for various reasons, popular opinion in both parts of the old Monarchy never really favoured big-scale joint-stock enterprise.

" Under the circumstances only a few firms ever obtained financial independence. The rest remained in the hands of the banks, whose sphere of influence and activities went much further in Austria than it ever did in Germany. The Austrian banks not only tended to control the whole business management of their affiliated industries, but also acted in some cases as wholesale merchants in certain commodities, such as wool, coal, sugar, drugs and timber. The methods of control varied with the banks and the status of each firm, but the principle remained the same. The banks possessed the decisive, if not the final voice in the business, and often in the technical management of the companies in which they had shares.

" The men who thus guided the fate of industrial life in Austria and Hungary were the chairmen of the big banks and their colleagues of the managerial staff. The board of directors would be composed of the leaders of Austrian trade and industry and men who had acquired standing and repute as international financiers. For the most part concerned in the management of their own private affairs, they generally left the management and the representation of their institutions to the chairman and executive committee of the managers, who thus acquired a position in business and society which differed widely from the

status of their colleagues in other countries. . . . The bulk of the supply of capital was by force of evolution and personalities divided up between the leading banks, a fact which gave the activities of each institution a decidedly distinctive note. In their foreign business the leading banks in Vienna and Budapest were alike in one respect: together with the financiers of other countries they formed the big international syndicates which financed the undeveloped parts of Europe. They were the main agencies through which, east of Zurich, trade and industry obtained their acceptance and remittance credits in Paris and London and the foreign exchange to pay their commitments abroad. Some banks even took part in the foundation of commercial banks in Italy and the Balkans, thus giving their industries special advantages in the commercial exploitation of these markets." [1]

From this most illuminating statement it is clear that the development of the relationship between the banks and industry in pre-War Austria proceeded on much the same lines as in Germany. After the post-War division of the old Austro-Hungarian Empire, the connection between the banks and industry became still more pronounced, especially in Czecho-Slovakia. There the banks, supported by the Banking Office of the Ministry of Finance, provided capital for industrial purposes wherever it was needed, to such an extent, indeed, that when the world depression brought wholesale bankruptcy, the loans of the banks reached unprecedented heights, and disastrous failures among them were prevented only by direct financial support from the Government. As a result of the collapse, the banks have been unable to satisfy normal business demands for financial accommodation, and the industrialists of the rapidly developing nation have been compelled to resort to other countries, and especially England and the United States, for necessary monetary assistance.

In post-War Austria, industrial activity and development are on a relatively restricted scale, but the banks have rendered valuable service in assisting the impoverished industries of the country, and also the Government itself, to raise foreign credits for necessary capital development.

[1] "Financing Industry in Central Europe," by Dr. G. Tugendhat, *Manchester Guardian Commercial*, 29.7.26.

SWEDEN.

The Swedish banking system, centred round the Riksbank—founded in 1656 and now the oldest bank in the world—has developed on lines somewhat similar to those of this country. Up to the beginning of the twentieth century, the Swedish banks constituted what was perhaps the most typically regional banking system that has ever existed, from the fact that each bank confined its activities to a given region—county or province as the case may be—and within such limits its semi-monopoly was carefully respected by the other banks.

Since 1903, however, amalgamation between the banks has proceeded on a scale comparable only with that in England, and, as a result, about 60 per cent. of Swedish banking business is now controlled by the "Big Four"—Svenska Handelsbanken, Skandinaviska Kreditaktiebolaget, Göteborgs Bank and Stockholms Enskilda Bank. In addition to these leading institutions, there are a number of other banks of various types—a few *local banks*, carrying on business in a given place and its immediate neighbourhood; several *regional* banks, confining their activities to particular areas, and three *inter-local* banks, spreading their business in branches throughout the country. Together, the Swedish banks have about 1000 offices, or one office to every 6000 inhabitants—a higher proportion than in any country other than Great Britain.

The extensive assistance rendered by the Swedish banks to industry is traceable to the remarkable development in that country of the system of deposit and savings accounts. Whereas in England there are only two important types of credit account—the ordinary current account and the deposit account—the Swedish banks feature five different types, varying from the current account as we know it to deposit accounts subject to one, five or six months' notice for withdrawals.[1] The rates of interest paid on semi-permanent deposits are naturally higher than are paid on the shorter-dated placements, and, by maintaining this variety of deposit

[1] *depositionsräkning* (one to six months' notice); *kapitalräkning* (four months' notice).

accounts, the Swedish banks have been able both to cater for the tastes of different kinds of depositors, and also to attract to themselves a high proportion of real savings which would otherwise have sought employment elsewhere

Thanks to such arrangements, the turnover of Swedish bank deposits is extremely slow, with the result that the banks have been able without difficulty to apply the funds left with them to meet both the long-term and the short-term requirements of industry, a matter in which they have been assisted, like the banks of Germany and other continental countries, by the fact that their subscribed capitals are much higher in proportion to their advances than those of the banks in England. Furthermore, the Swedish public has long preferred to place its savings in the hands of the banks rather than directly into industrial issues, with the result that the banks have been compelled to accept the rôle of financial middlemen between the saving public and industry. Hence, "it may be estimated that about half of the total credits of the banks is granted directly to industrial undertakings against bills and mortgages. But on top of that about 25 per cent. of the total loans are made against shares as collateral, and, as these are mainly industrial securities, practically about 70 per cent. of bankers' credits in Sweden are for industry, directly or indirectly, and these loans often form standing credits for rather large amounts." [1]

Advantages of the Continental System.

There is undoubtedly much to be said for the continental system. It is logically sound that the banks should have intimate first-hand knowledge of the financial position of businesses in which their funds are invested. Moreover, there are occasions when the banker's special knowledge and advice must be of the greatest benefit to a concern when important questions of financial policy are being discussed by the Board. Supporters of the system frequently contend that it has done much to maintain the elasticity and responsiveness of the industrial fabric, and that it has been largely

[1] "The Swedish Banking System," by Dr. Sven Brisman, *Times Trade and Engineering Supplement*, 12.4.30.

responsible for the rapid rehabilitation of continental industry since the War. The case for financial initiative, as has been well stated by the *Economist*,[1] is that an outsider can weigh up the situation as a whole better than those in the business, who often cannot see the wood for the trees; that frequently heads of firms and directors of companies have a vested interest in preserving their situations; that if nothing is done, the banks, in common with the rest of the community, suffer; and, finally, that the financiers have the indispensable means of smoothing the way.

The vital but intricate question whether this system could be advantageously applied in this country, even in a modified form, is one which can be considered only after a review of the essential functions of the British joint-stock banks.

[1] *Banks and Business*, January, 1930.

CHAPTER V

THE FINANCE OF BRITISH INDUSTRY: OUR BANKING TRADITION OF NON-INTERFERENCE

THE suggestion that our banks do not afford as much assistance to industry as they might, or as much as is afforded by the banks in other countries, is not by any means recent. It is years since the suggestion was first made that English banks are so much more zealous of their international business than of the needs of their domestic customers that Britain's internal trade suffers through an undue accumulation in the City of London of funds gathered from the provinces to finance international banking business. Equally long established is the charge that the small trader experiences the greatest difficulty—"that he has to run the gauntlet of many formalities and obstacles"—in obtaining adequate financial assistance from the banks, whereas the large capitalist and the company with prospects have no difficulty in satisfying their capital needs through the London Capital Market.

And our banks are by now well used to the contention that they are ultra-conservative and ultra-cautious—the implication being that they are ready at all times to grant short-period loans against undoubted security, whereas they are rarely willing to accept what appear to be reasonable business risks or to assist industry by the provision of long-term capital.

THE BRITISH BANKING TRADITION OF NON-INTERFERENCE.

Charges of this kind call into question those vital principles of joint-stock banking which have operated so successfully in this country for nearly a century. We may best explain this statement by briefly reviewing the essential features of English banking and comparing them with those of the

leading continental systems, which, needless to say, have received pæans of praise from those who have been foremost in condemning the inadequacy of our own institutions.

The fundamental principles of English banking are, first, the acceptance of deposits (largely repayable on demand by cheque), and, secondly, the granting of short-period loans at interest. The second of these two principles is, of course, embraced in the first. Banks who promise to repay on demand millions of their customers' money cannot—indeed, dare not—lock these millions away in long-dated loans. The funds must be kept as liquid as possible, and, for this reason, English banks have made no secret of their preference for short-term loans of small amount, widely distributed and regularly maturing under agreed terms of repayment. Much of these funds they invest in first-class bills, maturing within a period of not more than three months, while they invest a further proportion in gilt-edged securities which, in normal circumstances, are realisable without difficulty.

In like manner the banks endeavour to arrange their loans to trade and industry in such a way as to maintain maximum liquidity. They aim at supplying *circulating* rather than *investment* capital; at financing the purchase of raw materials and the sale of manufactured goods rather than the purchase of plant and equipment. Their object is to ensure that their loans are continuously turned over, so that while new loans are in process of arrangement others are being paid off. Hence, the English banks prefer to lend money to traders in relatively small amounts on the understanding that the loans shall be regularly reduced out of profits, or to private individuals on the understanding that regular repayments shall be made out of earnings or income, rather than to tie up capital for several years in mortgages on property or in loans to limited companies against debentures.

The bedrock principles of British banking are thus still the same as those laid down 100 years ago by Gilbart in his famous "History and Principles of Banking." Gilbart propounded three important theses in relation to bank loaning: first, that it is not the business of banks to supply

their customers with capital to carry on their trade; second, that it is contrary to all sound principles of banking for a banker to advance money in the form of permanent loans on dead securities such as collieries, mills and manufactories; and, third, that it is bad policy for a bank to make a very large permanent advance to any one customer.

But it must not be thought that our banks never grant long-term advances. It is merely intended to imply that as a general rule they *prefer* the short-term liquid type. Moreover, the banks are now probably more conservative in this regard than they were previously, since the depressed industrial conditions which have followed the Great War have caused many of the loans made to industry to become *immobilised*, or *frozen*; that is to say, many advances made on the basis of early repayment have become long-period loans with no certainty as to eventual repayment. This has been especially the case in the cotton, woollen, iron, steel, shipbuilding and engineering industries, so much so, indeed, that in a number of cases the banks have themselves had to take in hand the financial reconstruction of the enterprises and have had to make considerable monetary sacrifices in order to permit of some degree of rehabilitation.

But whether the English banker lends for short or for long periods, he always maintains the position of *creditor* in relation to his borrowing customers. He never assumes any responsibility for the conduct or management of a customer's business, in the capacity of partner, director or otherwise. Just as our banks have adhered to their traditions of short-term loaning, so the business man in this country has jealously guarded the complementary tradition of freedom from interference, and our bankers take the view that he would strongly resent any departure from this custom. "A large number of our manufacturing undertakings are wealthy concerns and would not tolerate for one moment interference by bankers in their affairs, and indeed would probably resent any inquiry into the nature of their business arrangements." [1] The keynote of the

[1] Report of the Departmental Committee on Financial Facilities for Trade, 1916 (Cd. 8346).

British system of banking credit is that both debtor and creditor shall function with a maximum degree of independence and freedom from restraint. It is in this respect that we find the greatest contrast between the English and continental systems.

Under the system operative in this country, the banker grants his advance and relies on his security to cover eventual repayment, while " his return by way of interest and commission charges is, of course, fixed or understood. On the other hand, the prudent debtor will proceed to use the borrowed money to the best advantage and will rejoice in the exclusive right to profits which may be made. It is, therefore, this complete freedom from interference which, naturally, must appeal because it is characteristic of our national outlook always to allow free development to that which is individual. In practice, too, the rights of both debtor and creditor are jealously guarded in British courts of law." [1]

This position of affairs is, of course, in distinct contrast to that existing on the Continent, where, as we have seen, the banker exercises a direct and highly important " interference " with the business of his customers. But " the English banking practice of non-interference with the management of a company has undoubtedly been a sound one in the past and a help to the development of industry, for, having no direct financial interest in any business, a bank has only had to concern itself with the safety of the loan made, and has not had to study the effect that financing the rise of some new firm or industry would have on any older established business in which the bank was itself financially interested. Thus greater freedom and scope are given for development, and the banker has an unbiased mind with regard to the financing of new inventions or developments in industry." [2]

" If we are to renounce this system and all that it implies, and in its place accept the practice which obtains in other countries, we must, at least, be prepared to adapt ourselves

[1] " Bankers and the Industrialist," the *Statist*, 18.1.30.

[2] Presidential Address of Mr. R. Holland Martin to the Institute of Bankers, 6.11.29.

to entirely new principles. This, no doubt, will be a matter of some little difficulty, because the outlook of the creditor is quite incomparable with that of the shareholder, and not only will their powers be in direct opposition one to the other, but they will also differ in no small degree regarding their respective rights. Apart from direct control of a company's affairs, the question of foreclosure may present new difficulties to a 'creditor' who has also assumed the rôle of 'shareholder,' and, under such conditions, it might reasonably be imagined that cases would frequently arise where the rights of the former would be unwisely subordinated to those of the latter. In this way orthodox business principles would doubtless be more openly disregarded, and, under stress of keen banking competition, sound principles might indeed be still further violated." [1]

Characteristic Development of British Industrial Enterprises.

The fact that our bankers have fostered the tradition of short-term loaning and non-interference in industry is largely due to the development of industry in this country on peculiarly individualistic lines. That is to say, many of our leading industrial and commercial enterprises owe their inception and subsequent growth to the industrial pioneers of the last century, who were not only responsible for the direction of the organisation under their control, but also supplied most of the capital from their own savings and profits. "The small-scale individual unit in the textile industries, the backbone of Victorian advance, depended for its continuous progress upon the supplies of personal capital provided by abstemious living proprietors. Modern rates of taxation have completely altered the distribution of the supply of capital, and it must now be attracted from the small rivulets of the many." [2]

In general, such capital was supplied without difficulty because the majority of our factories were insignificant

[1] "Bankers and the Industrialist," the *Statist*, 18.1.30.

[2] Sir Josiah Stamp on "The Present Position of Rationalisation," an address to the Textile Institute of Bradford, 9th January, 1930.

affairs, and, since development was gradual, the necessary funds for extension could be found by the owners of the business with comparative ease. Where funds could not be obtained in this way, resort would be had to the London Capital Market, whence adequate supplies were assured because Britain was already an important and relatively wealthy commercial country with a rapidly developing financial organisation in the City. So, when our joint-stock banks began to develop in the middle of the last century, they found the financial mechanism already well adapted to the needs of industry. The machinery for promotion, underwriting and issuing was already functioning with reasonable efficiency; long-term credit for joint-stock enterprise was readily obtainable, and the rapidly developing banks found their most profitable avenue of operation in the business of short-term loaning.

The business of the English joint-stock banks did not, therefore, develop on the "mixed" lines of the continental banks. British banking is essentially "pure" banking; it depends on short-period loaning, and leaves to other financial agencies the provision of long-period funds for capital as opposed to revenue purposes. Our banks had not the same incentive as had those of other countries to develop into central reservoirs of credit from which funds for capital outlay could be drawn at will. They applied themselves to the provision of current or temporary advances, and left business men to raise any necessary capital for extension either from private fortunes or from the English Capital Market, whose development kept pace with the growth of British enterprises at home and abroad.

With considerable justification, therefore, our bankers point to the existence of this market as a reason for their having regard chiefly to the short-term needs of industry rather than to its long-period requirements. They argue that there are in the Capital Market such extensive facilities that no legitimate business need remain for a day without the necessary funds for profitable expansion and development. In no other country are there organisations which surpass in efficiency and experience the London Stock

Exchange, the London issuing houses, investment houses, finance companies and underwriting agencies, and in no other country is there a more varied and enterprising band of company promoters than is to be found within the boundaries of the City of London.

The English Capital Market.

The accuracy of this contention will be better appreciated after a brief review of the functions and scope of the institutions which comprise the Capital Market. Actually, the market may be said to embrace not only the Money Market itself, but also the whole of that specialised machinery in the City of London which is primarily concerned with the transfer of capital from those who wish to invest it to those by whom it is required, together with a wide circle of other less defined agencies which perform a similar function. The Capital Market, in fact, comprises an *inner* and an *outer* ring.

The Outer Capital Market.

The Outer Capital Market, which is much the less centralised of the two divisions, comprises the services of the solicitor, the provincial broker and the building societies, together with the system of trade credit and all those less defined but widespread arrangements which facilitate the movement of loanable capital from investor to borrower. Though the Inner Capital Market plays the leading part in linking up the demand for capital with its supply, it is seldom realised to what extent industry is financed through the less defined but none the less important agencies constituting the Outer Market. Loans of large and small amounts are made daily through solicitors on little or no security other than faith in the borrower's integrity and ability; professional moneylenders advance huge amounts to individuals of every class; large sums are lent by building societies on the security of mortgages; while, in most industries, working capital is supplied for short periods through trade credit provided by merchants, dealers and middlemen.

It may truly be said that the typical merchant is not

merely a buyer and seller; he is also a financier in the true sense of the word, utilising a certain proportion of his capital in granting trade credit and accepting similar facilities in return. In some industries, particularly in the cotton industry, the provision of short-term credit by such means is of first importance, for the intimate knowledge which traders in this industry have of their customers enables them to afford credit facilities and to perform loaning services which no banker would undertake.

THE INNER CAPITAL MARKET.

This section of the Capital Market is highly centralised and embraces three distinct groups: (*a*) the specialised institutions of the Money Market proper, dealing with short-term capital: (*b*) the market in new securities or new capital, consisting of the many forms of trust and finance companies in the City, the company promoters, underwriters, issue and advertisement houses, all of which are engaged in company flotation; and (*c*) the market in issued securities or invested capital, represented by the highly organised London and Provincial Stock Exchanges.

The joint-stock banks are undoubtedly the foremost members of the Inner Capital Market. They relieve the capitalist of the entire work of management of his disposable short-term funds, and, through an elaborate system of some 5000 branches, establish business relations between large numbers of people who have capital available for investment and people who are desirous of turning it to account.

The trust and finance companies comprise a large group of several hundreds of institutions, ranging from the highly reputable trust company proper to less known financial houses engaged in more speculative operations. Many and varied are the purposes for which such institutions are formed. Those which operate mainly at home invest funds, discount bills, underwrite issues of new securities, convert businesses into joint-stock companies, act as trustees and agents, purchase assets of insolvent estates, acquire and develop property, and generally assist commercial undertakings.

Investment Trusts.

In recent years, investment trusts have become very prominent not only in this country but also in the United States, and shares therein are being increasingly favoured by the small investor. The function of the trusts is to invest the funds entrusted to them in such a way that, by judicious distribution, by limiting risks incurred in any one direction, and through the advantages of specialised study of investment, a higher income return may be obtained on the money than is available to the ordinary investor.

The funds of the investment trusts are spread over a large number of varied undertakings and, as a rule, no more than 5 per cent. of the capital is invested in any one enterprise. It is estimated that at present about 50 per cent. of the capital of the English investment trusts is invested in undertakings in Great Britain.

As favourable opportunities arise, the holdings of a trust are varied and those showing capital appreciation are realised, but the making of profits in this way is merely subsidiary to the main business, and any profits so realised are not distributed but are transferred to reserve. The distributable revenue of the trust is derived entirely from interest and dividends on investments. The investment trust proper is not a speculative concern, but seeks to obtain the maximum return consistent with the minimum of risk. There are, however, many institutions, especially in the United States, which, under the style of investment trusts, conduct operations in shares of a distinctly speculative character.

Finance Companies.

These companies take many forms, but, unlike the investment trusts, they seek to control the enterprises in which they are interested and, with this end in view, concentrate on a small group of undertakings. Their business is much more speculative than that of the investment trusts. They trade in securities, but treat the profits derived from purchases and subsequent sales as revenue. They also assist in the flotation of foreign loans and arrange for the exchange

of the sterling raised by means of the loans into the currency of the borrowing country.

Since these companies seek high returns, and since their holdings are not widely distributed, they take considerable risks and are liable to be seriously affected by financial depression or disturbed monetary conditions. The companies which operate mainly overseas have especially varied objects. They are formed to invest in all types of foreign securities, in real estate mortgages, railway bonds, rubber, tea and coffee plantations; to assist industrial development, acquire freehold land and work railways; to carry on general financial business, and to act as trustees and agents. In fact, the great variety of purposes for which these finance companies are formed tends to obscure their principal function—that of supplying capital. Companies of this kind which operate on a group basis, *i.e.* companies which hold the shares of a group of operating companies, sometimes betray a position of extreme weakness, as was strikingly demonstrated on the London Stock Markets during the latter half of 1929, when several of these groups, controlling millions of capital, were involved in an unprecedented financial crash.

Issuing Houses.

The principal function of the issuing houses is to offer new issues for subscription to the investing public, not only for domestic purposes, but also to meet the requirements of foreign borrowers. The objects for which such issues are made are many and varied—to construct harbours or railways, to assist trade development or to help to restore a stable currency—and the tendency is for certain issuing houses to specialise or concentrate in a given direction. Some houses handle only domestic business, others only foreign issues; some are reputed for their handling only of first-class propositions, whilst others again are known to favour the more speculative type of transaction.

The issuing houses may be said to act as pipe-lines between industry and the idle resources of the investing public. Their first duty is to examine carefully the merits of any new capital issue which is proposed. They decide whether

the issue is justified by the position of the company or Government or other body which wishes to raise money, whether the security is good, and whether the public is likely to get a fair deal.

To borrowers, the issuing houses render a distinctly useful service. Thanks to their intimate knowledge of the state of the Capital Market, they are able to advise as to when and how an issue shall be made, and, by shrewdly timing the operation, they often save the borrower considerable sums. Furthermore, the borrower is relieved of all the work and worry connected with the raising of the capital by an arrangement whereby the issuing house takes over the loan at a price below the public issue price and transfers the ultimate net proceeds of the issue to the borrower, whether the public response has been satisfactory or otherwise.

The issuing house is obviously unable to guarantee the security of the issue which it sponsors, and it must accept the figures and statements provided for it. In most cases, however, the chief danger against which the investor needs some safeguard is not intentional deceit, but the vague optimism and oversight which are characteristic of so many borrowing operations. The first-class issuing house does not sponsor any issue which it considers of a doubtful character, and, in thus preserving its own good name, it performs an important function in protecting the public, and so facilitating the rapid and economical distribution of new capital. In discharging their function, the issuing houses have an important adjunct in the Stock Exchange, because if people are to subscribe freely, they must, of necessity, have a ready means of realising their investments whenever they desire to do so.

The Market for Negotiable Securities.

The market for negotiable securities is primarily concerned with the supply of capital for long periods, and, as already indicated, really consists of two distinct organisations—the market for new securities and the market for *old* or *issued* securities. The function of the first of these is to formulate the demand for capital by expressing it in the

form of a variety of negotiable securities adapted both in amount and in the degree of risk to appeal to a widespread public. Underwriters guarantee the subscription of the whole or part of the issue; well-known brokers lend their names to prospectuses and open up a market among their clients; bankers receive subscriptions and issue securities in return; while the specialised machinery of the advertisement houses enables them to distribute an enormous number of prospectuses among a selected public.

The Stock Markets.

The work of the market for issued securities, *i.e.* the Stock Exchange, is ancillary to the main function of the Capital Market, which is to obtain supplies of new capital from the public. It contributes to this end by providing facilities by which securities, after they have been purchased, may be readily exchanged and realised. The organisation of the market as a whole enables an immense number of small portions of capital to be collected from a wide public and placed at the disposal of states, municipalities, industrial organisations and commercial enterprises in all parts of the world.

Assistance afforded by the Banks.

The foregoing brief survey of existing financial institutions supports the contention of our leading bankers, that the normal requirements of British industry are well provided for between the short-term facilities afforded by the banks and the long-term facilities of the Capital Market. And there can be no doubt that these highly organised institutions enable industrialists in this country to borrow, on the whole, more cheaply than industrialists in any other countries. "It is safe to say that neither in France nor Germany (not to speak of the situation in Austria, Italy and the new countries) can the average business man borrow anything like as cheaply as he can in this country, and that it is extremely doubtful whether the bulk of commercial and industrial loans, as distinct from financial loans, are negotiated cheaper in the United States of America than here. . . . A comparative statement of this kind . . .

does do something to remove the feeling that the British business man is specially affected by the banking system in this country." [1]

In this connection, our bankers point out with perfect truth that the rates of interest charged in this country for loans are no greater than is received, or ought to be received, on fully secured preference shares or debentures, and that such rates are not as high as should be obtained on ordinary shares. Hence, they argue, it is unreasonable to expect the banks, for the rates which are now charged, to undertake the greater risks involved in actually becoming proprietors of businesses in which they are financially interested, as is frequently the case on the Continent. If industrialists insist that the banks shall take greater risks, then they must be prepared to pay higher charges for the accommodation.

Unfortunately, it is not possible to obtain any precise statistics indicating the degree of assistance afforded by our banks to industry. Even if such figures were available, it is unlikely that they would be accurate, since the banks are not always able to ascertain precisely for what purposes money advanced by them is being applied. Nevertheless, the fact is incontestable that a very high proportion of bank advances is applied to such industrial uses as the production, distribution and marketing of goods; the purchase of consumption goods by private traders and business concerns; the supply of floating and permanent assets; to bridge over the period between actual outlay and the raising of the necessary permanent capital to meet it, and, in general, to assist the smooth working of the national trade machinery by providing seasonal advances of a temporary character. As long ago as 1916 the Board of Trade Committee on Financial Facilities for Trade reported that "the British banks offer liberal accommodation to the home producer. British bankers are not shy in making advances on the strength of their customers' known ability and integrity, and the charges for accommodation are, we believe, lower than the corresponding charges in foreign countries. We find also that in the case of large contract operations British

[1] Dr. T. E. Gregory, *Financial Times*, 3.10.27.

contractors, with the assistance of financial houses, have in the past been always ready to provide large amounts of capital and to take considerable risks in connection with the operations which they have undertaken." [1]

THE DISTRIBUTION OF JOINT-STOCK BANK ADVANCES.

Some light was thrown on this matter by Mr. McKenna in his annual speech to the shareholders of the Midland Bank in the spring of 1929, when he analysed the advances made by that bank to various groups of customers. He pointed out that, while no definite conclusions could be drawn from the figures of total advances as to the degree of accommodation given by his own bank to trade and industry, the figures of the distribution of the banks' loans among the various industrial groups afforded no evidence that the banks did not cater for industrial needs. The statistics given by Mr. McKenna are sufficiently important to warrant reproduction, since they must reflect the position in other banks.

PERCENTAGE DISTRIBUTION OF THE TOTAL ADVANCES OF THE MIDLAND BANK, LTD.

June, 1928.

	Advances.
Textile Industries (including brokers, merchants, spinners and manufacturers) . . .	12¼%
The cotton and wool industries were said to receive about equal proportions; silk and other textiles to account only for a very small part.	
Building and Land	11¼%
This was stated to include temporary advances for investment in houses and land, and for the purchase or construction of houses for the buyer's own occupation. The larger part was said to be lent direct to builders, contractors, brickmakers and others, and for this reason these advances are extremely liquid, since they are repaid on fulfilment of the contract or sale of the building. Advances to private persons for investment in houses are granted during the arrangement of the mortgage.	

[1] Cd. 8346. H.M. Stationery Office, 1916.

	Advances.	
Iron, Steel and other Metal Manufacturers, Engineers, Machinists, Shipbuilders	7¾%	
Agriculture	6½%	
Some of this total was said to be lent for the purchase of farms, but most of it was stated to consist of temporary advances for ordinary farming operations.		
Food, Drink and Tobacco	6%	
Leather, Rubber and Chemicals	4%	
Miscellaneous Trades: Newspaper Undertakings and Paper Manufacturers	4%	
Shipping and Transport	3½%	
Coal	2½%	
Total—basic industries		57¾%
Wholesale and Retail Traders	11¼%	
To the distributive traders there were stated to be 31,000 loans, each loan averaging only £330, and over 40 per cent. of the total loans under this heading were said to be lent to retailers with single shops.		
Professional and Private Advances together with Loans on Trust Accounts	6½%	
Social Authorities, Gas, Electricity, Water and other Public Utility Companies	3½%	
Entertainment Companies, Clubs, Societies and Associations, Churches, Hospitals and Schools	2½%	
Insurance Companies and Brokers, Finance Houses, Trust Companies and Foreign Banks and Miscellaneous Finance Loans	8%	
These are generally for short periods only. Loans to foreign banks are largely for the finance of international trade.		
Investments in Stocks and Shares	8¾%	
Certain impersonal accounts	1¾%	
Total—other advances		42¼%
		100%

If these percentages can be taken as representative of the advances made by each of the clearing banks, they indicate a high degree of banking assistance to industry. Moreover, the facilities offered by the banks in this direction have increased considerably in recent years. In December, 1921, the total advances of the ten London clearing banks were

£780 million, whereas in December, 1929, they were over £989 million. This increase of nearly 27 per cent. is remarkable in view of the facts (*a*) that the general level of prices fell considerably during this period (implying a marked rise in the purchasing power of the funds advanced); and (*b*) that the corresponding figures for deposits were: December, 1921, £1,863,000,000 and December, 1929, £1,811,000,000, a decrease of nearly 3 per cent. Thus, contrary to general criticisms, the financial stake of our banks in industry increased both actually and relatively during the decade 1921–1929, even though their disposable funds, *i.e.* their deposits, had actually fallen during the same period. With reference to this position, the Hon. Rupert E. Beckett stated in 1930, that "under the present system of British banking we are near to saturation point, and as regards loans and advances, the further substantial demands can be safely met only by an increase in the banks' capital. Whether the time has arrived when it is a desirable policy to throw on to us bankers, whose bases are deposits repayable on demand, the responsibility of finding capital for trade is a question that I answer for myself in a direct negative." [1]

Are the Resources of the Banks employed for Finance rather than Industry?

The figures supplied by Mr. McKenna appear to prove unmistakably that there is little truth in the suggestion that the resources of British banks are applied in finance, especially of an international character, rather than for home industrial purposes. It will be observed that, of the total advances, only a part of 8 per cent. is directly stated to be lent to foreign banks (*i.e.* for the finance of international trade), while $8\frac{3}{4}$ per cent. is lent for investment in stocks and shares. Or, to put it in another way, "Industry and Trade" receive 69 per cent. of the Midland Bank's advances, whereas "Insurance, Finance and the Stock Exchange" get only $16\frac{3}{4}$ per cent. Commenting on these figures, Mr. McKenna said, "It is clear that if on a strict analysis we

[1] Presidential Address: Manchester and District Bankers' Institute, 10.1.30.

could add together all those loans, without exception, which represent part of the necessary equipment of production and trade, we should arrive at a very high proportion of the total. How high the proportion is it is impossible to say with exactitude, but I am sure we shall be on the safe side if we assert that nine-tenths of our advances to customers are of this character."

In a final thrust he almost conclusively disposed of the criticism here mentioned: "Loans to foreign banks are many times exceeded by deposits placed with us by those institutions, and are largely for the purpose of financing international trade. Only an insignificant proportion, in fact, less than one-half per cent. of our total advances, is extended to undertakings operating abroad. In other words, practically the whole are for home purposes of one kind or another."

Mr. McKenna's arguments and statistics accord with a similar statement made by Mr. Beaumont Pease of Lloyds Bank,[1] in the course of which he gave the following data respecting the distribution of that bank's loans at a certain date towards the end of 1926:

	Total. £	Average amount of each loan. £
Agriculture	18,503,000	881
Personal and Professional	43,537,000	545
Retail	13,537,000	610
Local Authorities	7,068,000	5,484
Iron and Steel	3,174,000	7,934
Coal	3,890,000	12,925
Cotton [2]	3,808,000	15,356
Chemicals and Fertilisers	894,000	6,337
Oils and Fats	1,670,000	16,216
Paper, Printing and Publishing	1,818,000	3,024

No indication was given by Mr. Pease as to loans used for the finance of international trade or of Stock Exchange transactions—presumably the totals in these categories are included in the general total "personal and professional"—

[1] Annual General Meeting, 4th February, 1927.
[2] Mr. Beaumont Pease explained that the figures relating to cotton were misleading, as so much of the finance of this commodity is done by way of discounting.

but there are no grounds for the belief that they are in any way as large as is supposed in some critical quarters.

Dealing with the same matter in February, 1928,[1] Mr. Beaumont Pease stated, "I am sometimes asked—and the matter is occasionally referred to in the Press—how far the facilities afforded by British banks to the industries of this country are affected or restricted by loans made by those banks to foreign countries. So far as this bank is concerned, I may say that the balances which we maintain with our banking correspondents abroad are covered many times over by balances received by us from abroad which are available for additional lending on this side, and also that customers' overdrafts at our Indian branches are less than 54 per cent. of our Indian deposits. Apart from this, the money which we lend abroad is insignificant."

Neither the figures of Mr. McKenna nor those of Mr. Pease support the view that "there is a persistent export of British capital to markets where it can yield the highest intermediary profits without reference to the needs of industry or to the credit situation at home"; [2] or the further suggestion of the same writer (whose expressed views were presumably representative of those of the important body with which he is connected) that foreign rather than home production has been stimulated, because a large part of our bank advances has been made to importers in this country for the purchase of goods manufactured abroad.

The London issuing houses, who are, of course, mainly responsible for capital issues on the London market, are equally emphatic that their services are largely given to, and are vitally beneficial to, home industry. On this point, Sir Eric Hambro recently stated: [3] "The connection between British industry and London issuing houses has never hitherto been close . . ." but "I would protest against the fallacy which has once again appeared, that issuing houses such as ours are guilty of an unpatriotic action when they issue a foreign loan in that they are

[1] Lloyds Bank Annual General Meeting.
[2] Letter of J. A. Corcoran, of the National Union of Manufacturers, to the *Financial Times*, 23.11.27.
[3] Annual General Meeting of Hambros Bank, Ltd., 29.5.30.

supplying the foreigner with capital which would otherwise be available for British industry.

"When a foreign loan is issued the proceeds of that loan can only be made available to the borrower in sterling. The sterling can only be transferred into foreign currency by a purchase of British goods and services, a repayment of debts owing to England, or an export of gold from England. It is only the last method that can in any way hurt British industry, and we know from past experience that this method only becomes operative as a last extreme.

"I therefore regard as unnecessary any official restriction of loans to foreign countries. Funds for foreign investment are derived from the country's active trade balance, and this is not unlimited; issuing houses know well enough when the margin of safety is likely to be reached. Funds for domestic investments are of a different order; they are derived from the savings of the country irrespective of its trade balance.

"But the point I wish to emphasise is this: it is just as important to finance the buyer of British goods as it is important to finance the seller, and that form of banking which we practise normally has been the necessary concomitant of the development of British industry. Even if we are now to place our issuing power more directly at the disposal of British industry, we shall not, I hope, in the interests of the same industry, discontinue to finance its customers."

Financial Assistance for the Stock Operator and Speculator.

In regard to the supposed degree of assistance rendered by the banks to the Stock Exchange, Mr. R. Holland Martin had some illuminating things to say during his Presidential Address to the Institute of Bankers.[1]

"The relative amount of bankers' deposits lent for Stock Exchange purposes," he said, "is certainly smaller than it used to be in pre-War days, and it will be remembered that when the War came the amount so lent, large as it was, was less than many had imagined. The amount now lent to the members of the Stock Exchanges in London and the country is not more than is required to enable those institutions to play their part in forwarding the interests of the industry of to-day, which is so dependent on having an active and free market in its shares. How else could industry continuously raise the fresh capital that is required? It is a great mistake to treat finance and productive industry as if they are mutually opposed, and to infer that those who suggest and provide the means of carrying

[1] 6.11.29.

out great enterprises are not necessary in our commercial life. The interests of the two should be, and in my opinion they are in this country at the present time, the same. Finance cannot for long be successful if industry and trade are not prosperous. The financial pre-eminence of the City of London, of which we are so proud, would crumple up like a house of cards if we as a nation ceased to take a leading part in the commerce of the world. Bankers are adjured to confine their advances to those who use the money for productive purposes and to avoid giving any assistance to the speculator. But without the speculator modern business could not be carried on. He is the man who, taking long views, is prepared to undertake risks; in the earlier days of our history he would have been called a 'merchant venturer.' If a big industrial undertaking appeals to the public for funds, and, for some reason or other, the response of the public is insufficient, the underwriters have to take the balance of the issue, which has to be carried by the speculator until it is absorbed by the public. The speculator, to enable him to carry the stock, may require a loan from a bank, and such a loan is as much a direct assistance to industry as if made to the undertaking itself."

Assistance for the Small Trader.

Possibly the contention most emphatically refuted by the figures given by Mr. McKenna and Mr. Pease is that our banks do not adequately assist the small trader, who, unlike the large capitalist, is unable to satisfy his need for funds by resort to the London Capital Market, where the resources of private investors are mobilised more especially for the benefit of large companies with the necessary organisation and prospects to attract them. On this point Mr. McKenna said that "on the date of the foregoing analysis, our loans and advances were extended to more than 180,000 borrowers, the average amount outstanding being about £1200." In the same connection, Mr. Pease stated:

"Taking the total number of all our overdrawn accounts, we find that our average overdraft is £1204. The three largest sections, *i.e.* personal and professional, agriculture, and retail, cover 83·9 per cent. of the total number of accounts and 42·8 per cent. of the total overdrafts, that is to say, 84 per cent. of our borrowers have average overdrafts of no more than £614, accounting for 43 per cent. of our total overdrafts. These figures effectively answer the statement sometimes made, that banks do not cater for the smaller borrower. Although we have been

described as huge capitalistic institutions, it is 'the small man' with whom we are chiefly concerned, and it is 'the small man' who figures most prominently in all aspects of our business. Our average shareholding is 250 'A' shares, and our average credit balance is no more than £227."

It may, of course, be argued that these averages in themselves are of little value; that they may, for instance, include a large number of very small loans and a number of much larger ones. But it seems more reasonable to accept the statement made by the bankers, that the loans are widely distributed in small amounts rather than concentrated in large amounts. And the former conclusion is, of course, in accordance with the recognised policy of the English joint-stock banks, who are known to prefer a large number of small loans widely distributed to the alternative of a few loans of large amount. To quote the words of another authority, "The first and most important way in which we benefit trade is by loans and advances to importers, manufacturers, merchants, agents, farmers, landowners and the general body of customers, and it is our practice to see that every class of customer receives the accommodation to which he is entitled. There is no distinction made, from the richest corporation to the smallest customer." [1]

The Crux of the Matter.

The truth of the matter is, of course, that there are occasions when the trader may not find it easy to obtain what he regards as legitimate and necessary supplies of capital. When times are difficult, or when business is extending rapidly, many traders find themselves short of permanent capital, and, as the easiest and most likely source, they immediately turn to the banks. But they do not pay sufficient regard to the fact that thousands of other traders are in a like predicament, and that the banks are being pressed for accommodation from all sides. In

[1] Mr. R. S. Boyt, Controller of the Advance Department of Lloyds Bank on "How British Banking Helps Commerce," an address to the Incorporated Sales Managers' Association of the United Kingdom, 20.2.30.

such circumstances, it is only to be expected that the latter may evince some reluctance to grant loans which may take a more or less permanent form without clear prospects of early repayment. The banks cannot help themselves in the matter. There is a distinct limit above which they cannot increase the proportion of their advances. They are compelled, by the extent of their own commitments in the shape of deposits repayable on demand or at short notice, to keep the bulk of their assets in liquid form. If they have already lent "up to the hilt," so to speak, they are bound to discriminate somewhere. Thus it happens that a trader with an excellent business finds his bank manager less cordial than usual, and has possibly to leave the manager's sanctum with the suggestion that he should put off the projected development of his business to a more propitious time.

And if the trader cannot get an advance at one bank the chances are that he will not get it at another. Local managers are only too anxious to get and to keep business, and this fact alone is a valuable guarantee that even the smallest local business shall obtain fair play. For, again to quote Mr. Holland Martin: "How could it be otherwise? The prosperity and deposits of each bank depend largely on the way that it conducts its business, and the competition is so keen between bank and bank that the moment a customer begins to think that the accommodation granted him is insufficient he very quickly goes to interview another bank manager." [1]

British *v.* Continental Banking Practice.

Any comparison of British banking practice with that existing on the Continent must, of necessity, have regard to those essential differences between the financial conditions in the respective countries which have been so strongly emphasised by our leading bankers and which have been briefly indicated in this and the previous chapter.

First, there is the important fact that a high proportion of the funds invested by the continental and especially by

[1] Presidential Address, 6.11.29.

the German banks in industry is subscribed by the proprietors (since the capital and reserves of such banks are relatively much higher than they are here), whereas the proprietors of English banks subscribe but a very small proportion of their funds. Most of the funds of the English institutions represent customers' deposits, and, since these are largely repayable on demand, our bankers maintain that it would obviously be unwise and unsound to lock up a high proportion of them in long-period loans to industrial enterprises. An English banker is the custodian of vast sums of other people's money which may be withdrawn on demand or at short notice, and on the basis of which he builds up a vast superstructure of credit. Unless the disposition of his funds is most carefully administered, the whole structure may be gravely imperilled. Hence, an English banker contends that he cannot lock up his funds in a factory, since a factory, whether closed or working, is useless for the purpose of cashing a customer's cheques.

Then there is the important argument that, whereas on the Continent banks are almost the only institutions in a position to meet industrial requirements for long-term capital, in this country such requirements are met by the extremely varied facilities and unrivalled financial machinery of the English Capital Market. There, our bankers contend, the industrialist and the trader can satisfy their every need for development capital in a measure which is unequalled by either the banking organisation or the financial machinery in any other country, Germany included, and, they argue, there is ample scope for British banks to concentrate on *current* finance for industrial purposes.

Some of our leading bankers go even further than this, and deliberately refute the suggestion that German banking institutions have granted more liberal credit facilities to industry than banks in this country. They contend that the facts are to the contrary; that in Germany, since the War, there has been a marked shortage of capital, and that the banks in that country have been forced to conservatism in the matter of granting loans and to great rigidity in regard to security. In other words, that German banks,

instead of loaning profusely, as is sometimes imagined, have been forced to ration credit facilities and to grant loans only to the more efficient of their customers. Indeed, it is said that as a result of this policy, the German banks have sometimes been compelled to allow their old customers to "go under" for want of adequate credit facilities to tide over a difficult period in the nation's history.

Advantages of British Banking Policy.

In one important respect the difference between the systems in the two countries must be acknowledged to be in favour of this country. English bank loans are widely distributed in relatively small amounts, over many industries, whereas in the German system the tendency is rather to relatively large investments in particular businesses and particular industries, wherein the banker concerned is specially interested and of which he has special knowledge and experience.

In this direction the greater security of the English method can scarcely be questioned,[1] and it has the added advantage of providing financial facilities to every branch and grade of industry without rigid selection. The German banker cannot remain unbiased in granting financial accommodation because he must always have first regard to his particular industrial interests. But in this country no one industry can be said to be unduly favoured. Few people would wish to impose on our banks a system whereunder they were forced to select which industries to foster and which to starve.

The fact is that although the continental system has received widespread commendation from British industrialists, it is not by any means perfect, and it is manifestly absurd to suggest, as is done in some quarters, that it would be entirely suited to this country, where conditions are so obviously different.

[1] "It is true that foreign bankers frequently make long-term loans to industry and often take up participations in industrial concerns, but the casualty list of foreign banks is such as to suggest that the British practice is the sounder." *The Economist*, "The Bank Enquiry," 19.10.30.

Without question there is much to be said for the standpoint of the British banks. Their organisation and tradition are unique. Their obligations to innumerable depositors in every walk of life cannot and must not be in the slightest degree impaired by the desire to cater for the special needs of a relatively small group of borrowers. And their reputation for stability and security is now so essentially the life-blood of a nation whose international position depends on her standing as the world's banker and financier, that they are naturally most reluctant radically to change the nature of their whole business to meet a situation which has arisen out of emergency conditions. The whole history of their development and the essential nature of their constitutions differ materially from those of the banks in Germany and other continental countries, and the most drastic alteration would be required to bring the British system entirely into line with continental practice.

Our leading bankers to-day are almost unanimous in the opinion that modern business is of such complexity and demands such a high degree of specialised skill that it is best left in the hands of those who most thoroughly understand it. Their view is that outside control or undue interference by bankers, or by any others who have no knowledge of the particular problems of business, must result in a loss of efficiency and must hamper initiative; that it cannot fail to affect adversely both profits and turnover, and must ultimately reflect itself in a fall in the profits of the banks themselves.

On another view of the question the fact must be considered that banking business itself has become extremely specialised. Banks are continually adding to their functions and increasing their utility to the community. Only in the last few years we have witnessed rapid growth in the foreign exchange and acceptance business of the banks; the establishment of trustee and executor departments; the undertaking of income-tax business; the institution of small deposits and home safes; the inauguration of first-class safe deposit facilities, and the extension of credit facilities in great variety for the benefit of foreign traders and

travellers abroad. Even in the smallest branch bank the bank official must keep himself acquainted with the latest developments in the business of his and other institutions, and it is argued that if he is to discharge these and other duties efficiently, his time must be fully occupied in attending to the details of his own business; that he has not the time or the capacity to participate in affairs of his customers which do not directly concern him as a banker. Our bankers say that, if they are asked for a loan, they satisfy themselves as well as is humanly possible that the bank is adequately secured and that there is a reasonable prospect of ultimate repayment. But further than this they do not go. If they decide to grant the advance, they leave the customer to apply the funds in his business as he deems fit, and they do not thereafter interfere unless they should unfortunately be compelled to take active steps to secure repayment, in which event the bank usually takes its place with others as an ordinary creditor.

Both from inclination and policy, therefore, the attitude of British banks "is to avoid, as far as possible, any form of control over, or undue interference with, industry. Even if they were tempted to act otherwise, it is very doubtful if there would be any chance of effective action, for, although the number of banks operating in Great Britain has been reduced in recent years, competition between the existing institutions would seem, if anything, to have become more intensified. An attempt by any of the banks to exercise undue interference in the affairs of its customers would probably entail a transfer of business to one or other of its competitors, and, from all points of view, there would be little to gain, while there might be much to lose." [1]

We revert to this important question in the final chapter, after further reviewing recent changes in the relationship between our banks and industry.

[1] A Banker on "Banking and Industry" in the *Financial News*, 25.7.27.

CHAPTER VI

ATTEMPTS AT SOLUTION

THE considerations discussed in the foregoing chapters should enable the reader to envisage the position of the controversy between our banks and industrialists as it appeared in 1928–29. Business leaders had at last come to recognise the crying need for rationalisation and reconstruction of our basic industries. They had been compelled to recognise, too, that schemes of amalgamation and rationalisation necessitate not only an immense amount of painstaking and skilled investigation, but also considerable outlay of long-period capital. Here is the crux of the problem with which we have set out to deal, and the basis of the controversy between the banks and industrialists. The latter insist that rationalisation in this country has been impeded by the policy of the banks, not only in restricting credit supplies, but also in holding back advice and assistance in other directions at a time of dire need.

THE IMPLEMENTING OF RATIONALISATION.

So far as the latter contention is concerned, there can be little doubt that the banks have shown themselves willing and ready to render whatever help lies within their power. Proof of this is afforded by the unselfish assistance given by the Bank of England, the joint-stock banks and the City financial houses towards the reconstruction of certain of our industries.

But, as has been quite rightly pointed out by Mr. J. Beaumont Pease [1] and other equally prominent bankers, "it is not the function of individual banks, or even of banks as a whole, if that were a practical possibility, to

[1] Speech at Lloyds Bank Annual General Meeting, 31st January, 1930.

initiate the re-organisation of industry, or to try to dictate the steps which should be taken in this direction. . . . Bankers have not the necessary detailed knowledge of the condition of an industry as a whole, or a sufficient acquaintance with its technicality, to be in a position to say what particular reforms are advisable; what flaws there may be in its technical procedure; or what units are redundant. These points should be left to the industry itself or to technical experts called in for the purpose, to determine."

Dealing with the same matter, Mr. F. C. Goodenough stated [1] that the banks would be merely throwing good money after bad if they provided financial assistance for an industry which continued to produce inefficiently in spite of a change in basic conditions, or in spite of some artificial interference with economic laws, while, in the words of the Hon. Rupert Beckett,[2] "the success or failure of a rationalised concern must depend on its control on the technical more than on the financial side, and in this regard the banker was often asked to decide on information which was usually incomplete and of which he had no means of assessing the value."

Another important point which has been admirably summed up by *The Economist* is the more general objection that "the powerful weapon of financial pressure must be used with great discrimination. The building up of great business units is a process which has often, unfortunately, been attempted for quite improper financial motives which have ended in disaster. And even when designed with the best of motives, a financial reconstruction may come to grief if it is not based on a sound technical foundation. While it is undoubtedly the case that waiting for the industrialists themselves to move has involved undue delay, it is none the less essential that industrial considerations alone must determine the size, form and character of the new organisations, and that the necessary experience and knowledge must be supplied from the ranks of industry."

In brief, the banks recognised the justice of the demand

[1] Barclays Bank Annual General Meeting, January, 1930.
[2] Presidential Address to the Manchester and District Bankers' Institute, January, 1930.

that adequate financial facilities should be available for industrial reconstruction, but they insisted that such reconstruction should come from within—that industrialists themselves should initiate the re-organisation, and come to the banks with their proposals and requests for monetary aid. The orthodox theory in this regard was convincingly stated by Mr. Tennant [1]: " Credit can help at the psychological moment, and those who control credit must always be ready and watching for the opportunity to help. But the initial impetus must come from the side of trade and industry. The function of banking is to be always ready to cater for an increased demand for commodities and an enhanced manufacturing activity by expanding the supply of credit *pari passu* with such developments. If the expansion takes place before the signs of an approaching increase in demand herald the need for an increase in production, the well-known evils of inflation are let loose. . . ."

The Finance of Rationalisation.

Though the actual implementing of rationalisation has afforded difficulties enough, it is the finance of the process which has aroused the greatest controversy between the banks and business leaders. In brief, the latter insist that rationalisation in this country has been impeded at every point through the difficulty of obtaining adequate supplies of capital. Since the great post-War boom, many of our leading industrialists have unquestionably carried on a losing game. Faced with violent foreign competition from large-scale organisations of the highest efficiency, and hampered by obsolete plant and inefficiency both of production and distribution, they have carried on until their credit has been entirely exhausted. Resort to the Capital Market was out of the question, while their own shareholders and debenture-holders had, for obvious reasons, lost faith in the concerns to such a degree that further supplies of capital could not be expected from them. Shareholders who had gone dividendless for years could not be expected to find further money for concerns whose profits had dwindled away and

[1] Westminster Bank Annual General Meeting, 1930.

had been replaced by losses, while debenture-holders naturally looked askance at any demands for additional capital from businesses whose assets were already mortgaged up to the hilt.

It was in these circumstances that application was made by many industrialists to the banks for temporary accommodation to tide over the difficult period; and, though in some cases the appeal was not in vain, industrialists claim that they were met in many cases by the refusal of the banks to provide the necessary funds, in direct contrast to which treatment they cite the example of the extensive facilities afforded to industry by the banks in other countries, and notably on the Continent.

In regard to this contention, it may be stated at the outset that there is ample evidence that the banks, without fully realising the extent to which they were committing themselves, for some years responded liberally to the demands made upon them and afforded an unprecedented degree of special financial assistance to industry. Quite apart from any other considerations, vast sums were advanced by the banks in the hope that the help so given would enable concerns in which they were interested to keep going until an improvement took place in the general economic position of the country.

In certain cases, of course, the banks could scarcely have acted otherwise. Indeed they had little or no choice in the matter.

"Forty-five years ago the country banker was paying the community his best service by foreclosing on an industrial undertaking which could be kept in existence only by the continued and increasing support of bank loans. By foreclosing the banker was not only cutting his losses and preserving the liquidity of his position, but he was aiding nature in the law of the survival of the fittest and was encouraging efficiency. There were plenty of new entrants in an industry to take the place of the bankrupt, and the markets of the world offered ample and lucrative scope for the activities of the more efficient among them. . . .

"Such rigid regard for orthodoxy would be inconceivable to-day. It would ruin not merely individual units, but whole industries. Moreover, by putting large groups of industries which are hopelessly in their debt under the hammer of the

auctioneer, the banks would be committing themselves to losses of really serious dimensions. The industrial situation in this country calls for a more constructive attitude on the part of the bankers. . . . The very size of their commitments to industry rules out any question of writing them off as bad debts. Consideration for the national well-being forbids any resort to the customary forcible measures for the recovery of the money lent. The banks have ceased to be concerned with the continued existence of individual industrial units. They hold in their hands the fate of whole industries. . . ." [1]

The Bank of England's Lead.

Recognition of these facts was without doubt behind the action taken by the Bank of England in a number of notable instances. Moreover, by its action the Bank showed its acceptance of the principle that, if certain undertakings were worth saving, the saving was worth some sacrifice. The Bank demonstrated in no uncertain fashion its conviction that it was useless to provide further finance for concerns already crippled with a heavy burden of prior charges unless, by some sacrifice on the part of the relative financial interests, the undertakings were given a new lease of life by a drastic reduction or modification of such prior claims.

Reference has already been made to the unselfish assistance rendered by the Bank on these lines in connection with the reconstruction of the vast armament firm of Sir W. G. Armstrong and Co., Ltd. Influenced, apparently, by the national importance of the undertaking, the Bank agreed to cancel £4,871,986 of debenture stock, together with about £450,000 of interest due to it for money advanced. By this means it was found possible to save the company from winding up, and to reserve some interest in the reconstructed concern for the existing shareholders,[2] while, at the same time, permitting the organisation to start afresh as free as possible from bonded indebtedness.

The Bank played a similar part in the re-organisation of William Beardmore and Co., Ltd., the great Glasgow steel firm, and also gave unprecedented *direct* financial assistance

[1] The *Statist*, "Banks and Industrial Reorganisation," 31.5.30.

[2] Losses amounting to over £14 million had to be wiped off, though the capital was only just in excess of £10 million.

to the Lancashire Cotton Corporation [1]—the undertaking which is charged with the important problem of rationalising the American spinning section of the Lancashire cotton industry. In these and in other ways the Bank of England unmistakably showed its appreciation of the necessity for drastic financial intervention as well as its determination to leave no stone unturned in its efforts to assist our depressed industries.

Efforts of the Joint-Stock Banks.

Among the many reconstruction and rationalisation schemes which have been made possible by the action of the joint-stock banks, possibly the most noteworthy are those connected with the coal, iron and steel industries, especially the great fusions between the well-known concerns Dorman Long and Bolckow-Vaughan on Tees-side, and between Guest, Keen and Nettlefolds and Baldwins in South Wales (to form the British Iron and Steel Company, Ltd.). Moreover, certain of the joint-stock banks took a leading part in the formation of Steel Industries of Great Britain, Ltd., which took over the capital of the United Steel Co., Ltd.—already an important amalgamation—and in the formation of the English Steel Corporation, which took over certain steel interests of Vickers-Armstrong and Cammel Laird.

The Merchant Banking Houses.

The merchant banking houses of the City of London have also done much to assist the national industries. These institutions, being less dependent than the joint-stock banks on large aggregations of deposits, have less need to be solicitous regarding the liquidity of their assets,

[1] This undertaking represents a concerted attempt to place the American spinning section of Lancashire's cotton industry on a sound footing through the amalgamation of a large number of small concerns. At the end of the first year of its existence the Corporation had brought under its control 75 companies controlling some 7,250,000 spindles and some 20,000 looms, and it is understood that it will shortly increase the number of spindles to about 10 millions. Working on similar lines in the Egyptian section of the spinning industry, a syndicate known as the Combined Egyptian Mills, Ltd. (formed early in 1929), now controls over 3,000,000 spindles, and has done much useful work in re-organising that section of the industry.

and, though their resources are not comparable with those of the joint-stock banks, they nevertheless showed themselves prepared to bridge temporarily the gap in our financial system which had made it difficult for home undertakings to obtain the capital necessary for rationalisation.

An outstanding example was the assistance rendered by the City firm of Lazard Brothers & Co., Ltd., in the reconstruction of the English Electrical Company, which, though temporarily successful, had found itself in dire need of finance for re-organisation. A marked feature of this assistance was that Lazards provided £750,000 of new money by subscribing for ordinary shares to that amount, and not by granting an advance against the security of debentures and mortgages, which would have served merely to increase the difficulties of the company by adding to its already excessive interest charges.

Assistance that is not Revealed.

While the outstanding schemes here mentioned have necessarily received a great deal of publicity, the Bank of England and the other banks have made possible many other similar schemes of re-organisation in connection with smaller enterprises, but in respect of these it is, of course, difficult to obtain details because of the natural disinclination of the banks to give away information regarding the affairs of their customers.

These facts lend little support to the suggestion that the banks have not responded sympathetically to demands for assistance where assistance was obviously merited, and, though many obviously inefficient concerns may have sought in vain for monetary aid, there is no reason to doubt the emphatic statement of our leading bankers, that no enterprise which is inherently *sound and progressive* has ever experienced difficulty in raising the capital necessary for expansion and development.

Where Financial Aid has proved Useless.

As a rule, the financial assistance rendered by the banks was attended by the most beneficial results, both to the

banks themselves and to the industrial groups concerned. In many cases, however, the help thus given unfortunately proved fruitless, and in some cases disastrous. Many bank loans to industry became " frozen " or immobilised through the failure of the borrowing concerns to improve their position, while several banks suffered exceptionally heavy losses through having granted financial assistance to concerns which were already so inefficient that it would have been better to have allowed them to " go under " altogether rather than attempt to assist them to continue on uncompetitive and uneconomic lines.

The banks do not altogether blame industry for this position. They recognise that, in some cases, they lent too easily and too freely, and that their policy of granting accommodation in certain directions was shortsighted. Their too-generous loaning policy in a more optimistic season in many cases resulted in the control of industry being more or less thrust upon them, and, rather than face their losses and write them down once and for all, they preferred to let things slide, and kept alive a number of concerns which, having regard to the interests of an industry as a whole, would have been better dead. And the continuously increasing burden of bank charges for interest merely aggravated the position and made still less likely any hope of financial recovery. Consequently, the banks found themselves in the position of having vast sums tied up in the form of frozen credits, and of having granted to industry "assistance beyond anything which in normal times would have been regarded as justifiable." [1] This statement was backed up by facts and figures given by the Bank Chairmen in 1929 and 1930, showing that the proportion of advances made by banks had already reached the accepted or traditional limits, and supporting the contention that they had already rendered so much financial help in connection with rationalisation that they could not wisely further extend their commitments in this direction.

Without doubt the experience of the banks taught them

[1] Mr. F. C. Goodenough, Barclays Bank Annual General Meeting, January, 1930.

a severe lesson. They were forced to realise that rationalisation is not a matter of *temporary* financial accommodation, but of *long-period* capital assistance. Not only were the banks asked to make heavy sacrifices in foregoing their prior charges, but they were also required to furnish initial working capital for the new combines built up on the remnants of the old. As we have seen, the appeal of many businesses to the banks was not in vain, but a continuance of the policy might easily have proved disastrous. The banks had to call a halt somewhere, and, guided by their unfortunate experience, they had to lay stress on the fact that the nature of their business did not permit them to continue to supply the immense amount of long-term capital which is required for the complete rationalisation of our basic industries. Thus it came to be realised that any extension of industrial banking in this country on the lines of the continental system could not proceed side by side with the adherence to the principles of deposit banking as it had been developed in this country. Foreign experience has proved unmistakably that the two types of business are best separated, for industrial banking is charged with considerable risks which cannot wisely be carried by large deposit banks. In Germany, it is true, the participation of joint-stock banks in industry has not led to disaster, but in other countries the experience has not been so fortunate. In Italy, especially, severe crises have occurred as a result of the relationship, whilst in France the fact that deposit business and industrial business were not separated led to banking failures of such magnitude that the functions of the Banques de Dépôts and Banques d'Affaires are now kept clearly distinct.

The Need for New Facilities.

During 1929, therefore, it had become evident that the industrial situation could be adequately met only by the creation of some new form of organisation in which both the banks and industrialists could co-operate to achieve the desired end. There was a growing consensus of opinion that rationalisation should not be the subject of a policy

of *laissez-faire:* that cut-throat competition could not be relied upon—or at least *should* not be relied upon—to cure the excess productive capacity in this country and to weed out the weaker organisations. Men of vision came to recognise that it was impossible to face the prospect of a ten or twenty years' period of stagnation whilst our industries muddled through, in the accepted English fashion, to a state of efficiency. Already the delay in taking the necessary steps had involved the nation in irreparable loss; foreign nations had been only too ready to occupy the field—and in many directions had firmly established themselves therein—whilst we were still hesitant as to whether improvement and change were really needed. Hence there was almost unanimous agreement among enlightened leaders of finance and industry that some external rationalising force was the only means of achieving the necessary progress.

Some plan had to be evolved which would enable the banks to forward the process of rationalisation by accepting a shareholding interest in place of their prior charges in the case of those concerns willing to embark on a properly thought-out scheme of re-organisation which, in the opinion of recognised leaders of finance and industry, promised some hope of revival. And those responsible for putting the plan into operation would have to be given sufficient power to induce—and, in the last resort, compel—recalcitrant employers to co-operate.

In brief, the problem, so far as the banks were concerned, was to determine how far the existing structure of the British banking system could be amended or developed to meet the changed and changing needs of industry without sacrificing its present unquestioned safety and elasticity.

The Securities Management Trust.

Faced with this universal acknowledgment of the need for radical action, the Bank of England, so frequently accused of cherishing antiquated principles and obsolete methods, took the country by surprise by giving a lead in the right direction and acting with quite obvious but most unusual

directness of purpose. Apparently, the Bank directors had arrived at the conclusion that the necessary work could best be undertaken by a special organisation, and in November, 1929, it was announced that such an organisation, known as the *Securities Management Trust*,[1] had been formed under the Bank's auspices, and with the Bank Governor as the chairman of an expert Board of Directors.

The stated objects of the Trust are to investigate and advise on all manner of financial, industrial and economic questions; to become a member of or be represented on any Board, Committee, Council, Association or Body having for its objects the investigation of any such questions, and to aid in the formation and carrying into effect of all manner of schemes and arrangements of or relating to the financial development, co-ordination, amalgamation, restriction or re-organisation of partnerships, companies, co-operations, etc. The first Board of the Trust includes such well-known leaders of finance and industry as Mr. H. C. Bischoff, Sir James A. Cooper (Director of Vickers-Armstrong), Mr. J. Frater Taylor (Director of Pearson and Knowles Coal and Iron Company), Mr. Frank Hodges (Director of the Lancashire Cotton Corporation), Dr. Montagu Collet Norman (Governor of the Bank of England), and Sir Andrew R. Duncan (Chairman of the Central Electricity Board). Expert academic assistance was provided for by the appointment of Professor Henry Clay (late of Manchester University) to the Bank of England's technical staff concerned with the Trust.

From subsequent developments it seems obvious that the Securities Management Trust has been formed as an offshoot of the Bank of England, to act as an intermediary between the Bank itself and any other organisation which might be formed to co-ordinate the nation's basic industries, and to encourage or assist the process of rationalisation by investigating the position of concerns, viewing their assets, and considering their suitability not only for amalgamation,

[1] The Trust was registered as a private company with an authorised capital of £1000 in £1 shares on the 20th April, 1929. The return of allotments dated 25th April, 1929, shows 998 shares allotted for cash and held jointly by Mr. B. G. Catterns and Mr. A. M. Walker of the Bank of England.

but also for the receipt of financial assistance pending the raising of permanent new capital.

The functions which it was originally thought would be discharged by the Trust are now obviously to be performed by the Bankers' Industrial Development Company, which, as stated below, was formed early in 1930. But the existence of the Trust as an entity separate from the Bank of England meets the objection that the Central Bank should not be directly concerned in any organisation which may have to show partiality—or, shall we say, influential discrimination—in any direction. In brief, the Trust is the medium through which the vast resources of capital and experienced personnel possessed by the Bank of England are to co-operate with those of other financial institutions in the country to bring finance and industry into closer relationship, and to ensure that any new capital introduced into industry shall be effectively employed and be of enduring benefit.

The Trust is in no sense the nucleus, as has been suggested, of a national credit bank, formed for the special task of financing industry. On the contrary, its functions are likely to be mainly consultative and advisory, especially in so far as it will present the views of our central banking institution on schemes of rationalisation and other matters of first-rate national importance. The Trust is, therefore, likely to be an agent of investigation and initiative, and will leave to other organisations the task of actually carrying through any financial schemes which have received the benefit of its support and interest. Without doubt, the Bank of England, by virtue of its prestige and its independent and detached position, found that it was able to advise upon and assist the promotion of schemes of reconstruction in a way which other institutions could not do. But doubtless it realised also that specialised work of this kind is entirely divorced from its ordinary functions and that, on grounds of efficiency as well as of policy, the work can best be discharged by a separate organisation in which it retains a close interest and with which it maintains close contact.

ASSISTANCE ALREADY RENDERED BY THE TRUST.

The Trust has already rendered a high degree of assistance towards industrial rationalisation. It has taken a leading part in both implementing and financing the formation of the Lancashire Steel Trust, which, it was announced in May, 1930, had been formed to amalgamate and rationalise the iron and steel sections of a number of important coal and iron companies in the Lancashire area, the coal-mining and coal-distributing branches of the interested concerns being at the same time amalgamated in a combine known as the Wigan Coal Corporation. As part of the scheme, the Securities Management Trust took over the whole £500,000 "B" ordinary shares of the Steel Trust, and thereby obtained voting control of the undertaking, while the first directors were selected by the Governor of the Bank of England.

In connection with this re-organisation, a most interesting step was the appointment of the American firm, Messrs. H. A. Brassert of London and Chicago, as chief technical advisers of the new concern, an indication that pride of nationalism is not to stand in the way of obtaining the best possible technical advice from overseas.

THE CITY SHOWS ITS READINESS TO ASSIST.

If further evidence were needed that British bankers, led by the Bank of England, were anxious to do anything in their power to assist industry during the present exceptionally different period, it was supplied by Mr. J. H. Thomas (then Lord Privy Seal and "Minister of Unemployment") in an important speech at Manchester on the 10th January, 1930. In the course of what must be regarded as an historic pronouncement, Mr. Thomas made the following statement:

"In considering the steps that might be taken to produce a better employment position by improving the organisation and equipment of British industries, I have found that a feeling exists that manufacturers are handicapped in bringing about the necessary re-organisation and re-equipment by the fact that

the long-continued trade depression has pushed them to the limits of the credit which they can reasonably expect to obtain from their bankers or which the bankers can reasonably be expected to provide.

"As a result of consultations I have had, I am now in a position to state that the City is deeply interested in placing industry upon a broad and sound basis, and ready to support any plans that in its opinion lead to this end."

Mr. Thomas was, however, careful to emphasise that the City "was convinced that a number of our important industries must be fundamentally re-organised and re-modernised in order to be able to produce at prices which will enable them to compete with the world," but that any "industry which proposes schemes which, in the opinion of those advising the City, conform to those requirements, will receive the most sympathetic consideration and co-operation of the City in working out the plans and finding the necessary finance."

Moreover, the City stood prepared to extend its assistance to any individual undertaking, "provided that the scheme under discussion fits in as part of the general plans for the industry in question as a whole and gives reasonable promise that the changes will enable the undertaking to become an effective unit in combination and co-operation with other similar undertakings. . . . In short," he said, "the whole forces of British finance are, for the first time, prepared to stand behind industry."

THE BANKERS' INDUSTRIAL DEVELOPMENT COMPANY.

That the promise implied in this pronouncement is to be duly fulfilled has already been indicated. In April, 1930, the registration was announced of the Bankers' Industrial Development Company, with a nominal capital of £6,000,000 divided into 45 "A" shares and 15 "B" shares, all of £100,000 each. The "A" shares are distributed among practically all the joint-stock banks and issuing houses of importance in the country, whilst the "B" shares (representing £1,500,000 of the nominal capital) are held by the Securities Management Trust, which is controlled by the Bank of England. Since the "B" shares carry three votes

each as against only one vote each carried by the "A" shares. the Bank, through the Securities Management Trust, holds a fifty-per-cent. control of the new organisation.

Apart from its large financial interest, the close association of the Bank of England with the new institution is indicated by the fact that the Governor of the Bank will act as the chairman of the Company, while the Managing Director of the Securities Management Trust will act on the directorate.[1] This is only as it should be, for the Industrial Development Company owes its being largely to the initiative of the Governor of the Bank of England, Dr. Montagu Norman. It is, in fact, a partnership between the Bank and the leading financial houses of the City formed to make available for British industry the amplest resources of the nation. It may be expected that the Securities Management Trust will continue to be the agent for initiating new schemes, and that the Development Company, as the organ of financial co-operation, will secure the necessary capital and become the instrument of a common policy on the part of the financial houses concerned to provide financial assistance to the reconstructed industries until they are again strong enough to appeal to the investing public.

Objects of the Industrial Development Company.

The object of the Company is to examine schemes of rationalisation submitted by any basic industry, and to ensure that satisfactory schemes obtain the necessary financial support from existing agencies in the City of London. And while the Company itself may furnish some part of the new capital, it is not likely to enter into competition in this regard with the ordinary business of the existing financial institutions. It is intended to be essentially intermediary in character, a fact which is indicated by the understanding that no profits shall be made and that the directors shall receive no fees for their services.

[1] The Board as first constituted included Dr. Montagu Norman (Chairman), with Sir Guy Granet as his alternative; Baron Bruno Schröder, with Major Pam as alternative; Mr. A. R. Wagg, with Mr. Nigel Campbell as alternative; Mr. E. R. Peacock and Mr. C. Bruce Gardner.

The Company will deal with basic industries as a whole, or with regional groups of industries, and not with minor industries or with independent industrial companies, and its activities in this direction should be all the more valuable for the reason that it will have at its disposal the services of an advisory council of influential financial and economic experts,[1] together with the support of regional advisory councils which it is proposed to establish in different parts of the country.

As has been explained in detail by Dr. Montagu Norman, the new company will not attempt to *enforce* schemes upon industry, even if that were possible. There is to be no dictation by banking interests. On the contrary, the formation of the Company is an inducement to the concerns comprising a leading industry to get together and approach the Company for assistance either in working out a scheme of rationalisation or in developing and approving a scheme which is already in being, so that the necessary capital may thereafter be raised on a sound plan and the industry placed on a world-competing basis.

Schemes of rationalisation which are thus investigated and judged by a body of unquestioned competence cannot fail to receive adequate financial support. The constitution of the Company ensures that no schemes which have a sound foundation will be held up by rivalry between banks and other financial institutions, whilst its influential backing

[1] The Advisory Council, as originally constituted, comprised:
Mr. F. A. Beane (Lloyds Bank, Ltd.);
The Rt. Hon. Viscount Bearsted (M. Samuel and Co.; Ltd.);
The Rt. Hon. Lord Bradbury, G.C.B. (Williams Deacon's Bank, Ltd.);
Mr. J. M. Cooke (National Bank, Ltd.);
Baron Emile d'Erlanger (Erlangers, Ltd.);
Mr. E. Fisher (Barclays Bank, Ltd.);
Mr. E. C. Grenfell, M.P. (Morgan Grenfell & Co.);
Sir Eric Hambro, K.B.E. (Hambros Bank, Ltd.);
Mr. F. Hyde (Midland Bank, Ltd.);
Sir Robert Kindersley, G.B.E. (Lazard Bros. & Co., Ltd.);
General the Hon. Sir Herbert Lawrence, G.C.B. (Glyn, Mills & Co.);
Sir Alfred E. Lewis (National Provincial Bank, Ltd.);
Sir Christopher Needham (District Bank, Ltd.);
Mr. John Rae (Westminster Bank, Ltd.);
Mr. Lionel de Rothschild (N. M. Rothschild & Sons);
Mr. A. F. Shawyer (Martins Bank, Ltd.);
Sir Alexander Wright, K.B.E. (Royal Bank of Scotland).

is likely to overcome those difficulties which have hitherto delayed obviously necessary plans for industrial re-organisation—especially the personal prejudices, traditional individualism, opposition to change and lack of experience of large agglomerations, which are so characteristic of British producers.

Thus the outstanding aim will be that the Company shall bridge the gap which now exists between depressed industries and the Capital Market. But it is not intended to provide money for buying up old concerns or for paying out existing shareholders or creditors in cash; the new capital is to be provided for the reconstruction of our basic industries up to the maximum of efficiency. The precise functions of the B.I.D. have been fairly conclusively indicated as a result of a controversy during the autumn of 1930 between that body and Mr. S. S. Hammersley, M.P., a prominent representative of the Egyptian section of the Lancashire cotton-spinning industry. This section, as a preliminary to rationalisation, proposed to buy out certain of the weaker firms in the industry and to liquidate their outstanding liabilities, including, in some cases, liabilities to existing shareholders. For this purpose, application was made to the B.I.D. for financial assistance, but this was refused on the ground that the B.I.D. could not sponsor any scheme which contemplated the raising of further capital for the purpose of satisfying in cash the claims of some of the vendor concerns or of existing owners of the units to be merged. The controversy made it clear that the B.I.D. has no intention of assisting the raising of capital for the purpose of buying out existing interests which have so little faith in their undertakings that they prefer to get out rather than to stay in and risk further capital of their own. Evidently—and quite rightly—the B.I.D. is rigidly against the re-financing of industry at the public's expense on the vicious basis of perpetuating inflated capitalisation, and stands prepared to come to the assistance of business men only when they have settled on the terms and sacrifices which existing claimants will accept in the future interests of the industry. Merely to transfer old debts from one

pair of shoulders to those of the B.I.D. is in no sense genuine rationalisation.

Mobilisation of the Powers of Finance.

From the foregoing it will be clear that industry may now rest assured that the forces of finance are mobilised for its salvation on sound lines. The issuing houses have the assurance that the Central Bank is not going to compete, but to co-operate with them. The investor will gain in security from the knowledge that a scheme to which he is lending his financial support has been approved by an eminently worthy and competent institution.

"In this mobilisation of the banking strength of the country for the task of industrial re-organisation there can be detected no sign of a conversion to a belief in the merits of industrial banking as it is known and practised on the continent of Europe. It is a temporary measure devised for a temporary problem of transition. It is significant that the Bankers' Industrial Development Company should have been formed for a period of five years only. By the end of that time it is hoped this institution will have accomplished its task. Similarly transient is the control which the Bank of England wields over certain industrial undertakings through its subsidiary, the Securities Management Trust. The proposed [1] amalgamation of iron and coal undertakings in Lancashire does not mark an altogether new departure in this respect, since the Bank of England already holds control of most of the undertakings involved. Here, however, is an instructive example of the more intelligent co-ordination that can be brought about through the unity of financial control and of the opportunities which such control affords for a thorough overhaul of management. Without becoming industrialists, bankers will yet find it possible to play an important directive rôle in the rationalisation of British industry." [2]

Although it is clear that banking and financial interests are ready to mobilise their resources and give much disinterested service in the best interests of industrial rationalisation, the fact cannot be hidden that there is an immense amount of spade-work to be done before industry and finance can be brought into that close co-ordination necessary

[1] Now effected—see p. 150.
[2] *Statist*, "Banks and Industrial Re-organisation," 31.5.30.

to attain the objects which they are both anxious to achieve. There is much leeway to be made up on both sides, and it still remains to be seen whether the new institution can really hasten the process of rationalisation in a country which is chronically slow to adjust itself to changing economic conditions. In one respect the new company will be handicapped. It will be unable to exert that pressure which the joint-stock banks, as large creditors of the industries concerned, have hitherto been in a position to exercise.

Moreover, it is reasonably clear that, although the industrialists have so far been the most prominent in their criticism of the banks, the banks have been perfectly reasonable in their insistence that British industry must itself awaken to the sense of its responsibility in this new economic age. Not even the Industrial Development Company, with its wealth of financial resources and unrivalled direction, can be expected to take the initiative. That must come from industry or from a self-contained industrial region itself, and, unfortunately, it is doubtful whether many of our leading industrialists have as yet awakened to the extent of the need for re-organisation of the concerns which they control. The prestige of the company will of itself provide a moral assurance sufficient to ensure that the necessary finance is forthcoming; but industry may be faced with an unlimited reservoir of credit and yet be unready or unwilling to help itself and satisfy its vital need.

FOSTERING CONSUMPTION: THE UNITED DOMINIONS TRUST.

That the Bank of England is keenly alive to the fact that industrial prosperity depends as much on the fostering of consumption as it does on the furtherance of production was clearly revealed in January, 1930, when it became known that the Bank had itself arranged to supply further capital for the development of an organisation known as the United Dominions Trust.

This organisation was formed in 1922 with a capital of £250,000, to provide credit for consumers of useful and necessary articles (as distinct from luxuries) produced in this country, and so with the aim of encouraging the purchase

of British goods. As a result of arrangements with the Bank, the capital was raised to £750,000 by the issue to the Bank itself of 250,000 "B" shares of £2 each, of which £1 only is at present paid up.[1]

The Trust owes its inception to Mr. J. Gibson Jarvie, who has made an exhaustive study of what is known as "distribution credit," or "consumer credit," *i.e.* the financing of consumers mainly on the hire-purchase or instalment system—a branch of credit allocation which, in this country especially, has so far received little direct encouragement either from the banks or from other financial agencies.

It is, of course, true that our banks have provided a vast amount of working capital for the distribution and marketing of commodities, as well as for production, while there is little doubt that a large part of their advances to industry and to private individuals is used for the purchase of consumption goods. But the ordinary joint-stock banks do not cater specially for the type of business here discussed; indeed, they are hardly adapted for the highly intricate and complicated form of finance involved in hire-purchase

[1] It is provided that the remaining £1 per share is to be called up only in case of winding up, or in certain conditions which are clearly prescribed. Thus the company may capitalise reserves or undivided profits, and, in this event, the first capitalisation up to £250,000 will be allocated to the holders of the original shares, now known as "A" shares, while the second capitalisation of £250,000 will be allocated as to one-half to the "A" shareholders and as to the other one-half towards payment of the uncalled liability on the "B" shares.

A third capitalisation of £500,000 will be divided as follows: £375,000 to the "A" shareholders and the balance of £125,000 to pay up the remaining uncalled liability on the "B" shares. Any time after the first capitalisation, the "B" shareholders shall have the right to pay up their uncalled liability, and, should they do so, the shares held by them will immediately be subdivided into £1 shares and will thereafter rank equally in every respect with the "A" shares.

Up to the time of the first capitalisation, the "B" shares will not carry voting rights except in certain circumstances, and the "A" shares will be entitled to a preferential dividend of 10 per cent., less tax; but any further dividends will be distributed among both classes of shares at the same rate. For example, in the event of the "A" shares receiving a gross dividend of 15 per cent., the "B" shares will receive 5 per cent.

After the first capitalisation, any dividends paid will be distributed on both classes of share rateably in proportion to the amount paid up. The original holders of the "B" shares have undertaken not to sell any shares without first offering them to the directors of the Trust, whose intention it is to offer any such shares to the holders of the "A" shares in proportion to their holdings.

trading, and the Trust has with marked success filled an obvious void in the national credit structure.

Since its inception the operations of the Company have been eminently successful, and much useful work has been done in financing the distribution and purchase, under long-term credits, of such things as electrical equipment for industrial and domestic use, and farm tractors for agricultural use. The Trust does not purport to assist people to purchase luxury articles; it aims at helping the small trader, who is handicapped by lack of capital, both to improve his equipment and to extend his activities.

Manufacturers and distributors to whom the Trust grants long-term credit facilities are able, in turn, to grant long-term credit to their customers, with the result that the Trust is now financing sales of millions of pounds' worth of British goods through its branches in the leading industrial centres of the country. It may be added that, though its turnover is extremely large, its loss ratio through bad and doubtful debts is almost negligible. The institution thus acts as a link between consumers and producers, and, though the business is mainly conducted by means of funds received from depositors (including the banks) and is, in fact, officially described as being that of " bankers," it actually bears little resemblance to the business of banking as we are prone to regard it in this country.

Benefits of Hire-Purchase Trading.

At the time of writing there are no indications of any marked extension of the principles underlying the formation of the United Dominions Trust, although it is quite obvious that the organisation fulfils a function of the greatest importance, as is only too clearly indicated by the Bank of England's active participation in its fortunes. The encouragement of instalment-buying and of hire-purchase trading cannot fail to benefit both industry and employment. In the United States and other countries " it has brought merchandise, comforts and utilities within the reach of vast multitudes who otherwise would have gone without. It has made factories more efficient; it has permitted mass pro-

duction of goods and so has created wealth; it has helped to reduce the price of goods without the lessening of trade activity. It has permitted the blessings of deflation without losing the advantages of inflation; it has virtually brought civilised conditions to people who hitherto had not known them. It has done more than that. It has, to a large extent, larger than is perhaps recognised, helped to build up character and to give to vast numbers of people, and even to commercial undertakings, an incentive to work, to produce, which otherwise they had not possessed.

"If sound consumer credit helps production by making distribution possible—and we engaged in financing consumer credit know it is so in spite of the alarm of the theorists—then consumer credit undoubtedly; though paradoxically, adds to wealth instead of dissipating it.

"For generations we in England have probably been the most important credit-granting country in the world, but we have, to a certain extent, failed to recognise the necessity for the scientific application of consumer credit at home. We have provided credits for production both in England and abroad. We have in the past built up a Colonial Empire by sending out our children, by giving our blood, and by extending our credits. At these different stages in our development and in our economic life that may have been as much as we could do. But the recent rapid development of education, the rise of democracy, experience during the War, have all forced on us the desire for things, concrete and in the abstract, which we did not possess before or which were not as widely distributed as we demand they shall be to-day.

"We have a vast industrial population who have needs and wants. If we are to satisfy those needs and wants and if we are to fulfil our idea of progress, which is the raising of standards for all, then it is necessary to produce. In order to produce, credits are necessary, and credits have been freely given. But if we are to produce we must consume, *i.e.* we must distribute the products, and, for that, credits must be equally freely given. Production postulates consumption. . . . Goods come into circulation and into use, playing their part in the production of further wealth for a still wider distribution.

"We are all familiar with the factories and warehouses which, through credits, have been enabled to produce goods; but which, through the lack of complementary credit, have had their shelves and warehouses filled with goods which they could not dispose of in spite of the fact that there were, and are, perhaps millions clamouring for these goods. And let us not forget

that these production credits then become frozen credits. They actually, in fact, cause the restriction of that credit which all economists admit to be the life-blood of present-day industrial, commercial and social life. Our bankers are only too familiar with the type of credit which refuses to be liquefied. Is not this an example of the incompleteness of the credit system? The credit system minus the scientific application of consumer credit is a lop-sided affair, unscientific, uneconomic. It is, in effect, a hardening of the commercial arteries.

"As I have indicated, my conviction is that consumer credit is merely the complement of production credit. I also state my belief that the financing of consumer credit is peculiarly the function of banking houses. I am not suggesting that each of the older existing banks should establish a special department to deal with this business. That, I think, would be uneconomic. But financial circles have already recognised, or are in the process of recognising, the necessity for financial facilities for consumer credit, and because of the highly specialised, technical and comprehensive organisation necessary to conduct the business safely, wisely, economically and efficiently, I think we shall find that the work and duty of providing facilities will be left to specialist credit banks, these institutions in turn procuring their funds, apart from capital, from the money market and deposit banks in the form of acceptance credits or discount or borrowing lines. It may even come about that some of the older institutions will participate in the shareholding, or even in the control of some of the newer specialist banks.

"Just as the merchant banks fulfil a special function which the joint-stock and deposit banks are content to leave with them, so there is now in being a new type of credit bank for the scientific and efficient handling of consumer credit financing.

"But we must recognise that the financing of consumer credit is purely and essentially an extension of banking activity and is not and should not form a part of manufacturing or trading activity. . . .

"In England, any finance or banking company coming into the field will have to establish itself by its own conduct, by its methods and by the place it can make for itself in banking circles. In Europe, some of the older banks have already recognised the part which banking must play in connection with the financing of consumer credit, and themselves form a large part of the shareholders of certain finance companies.

"We are living in a new age, with new desires and new needs; education and the War have destroyed that stupid contentment with age-old traditions and habits; we are in an age which is establishing precedents, which is renouncing the hoary precedents of the past, an age which is refusing any place to anachronisms, an age of fresh courage and daring. I, for one, welcome the

change of heart, though deploring one of the causes. It rests with us whether we shall make the world not only safe for democracy but worth while for democracy in our own day and generation. Mass production in a variety of lines is now a recognised part of our system; mass production demands mass distribution and consumption. To produce in mass demands production credits in mass: to distribute the goods produced demands consumer credits. Mass production is not only a commercial necessity, it is a social necessity. It is one of the main props of our new civilisation. Consumer credit has already played a part, but is destined to play a still bigger part towards that end." [1]

It is unlikely that the case for consumer credit could be put more convincingly than by its originator in this country, but the comment might be offered that the encouragement of consumption of goods must be complementary to the encouragement of production on the most economical lines. The encouragement of consumption can be beneficial only if the goods concerned are being produced at competitive prices, and any efforts such as those of the United Dominions Trust must proceed side by side with rationalisation and increased efficiency of industry or production. In the United States, the home of consumer credit and instalment buying, this complementary position has been achieved, as witness, for instance, the motor-car industry in that country. Mass production was developed in the States long ahead of demand, with the result that factories which were running at full capacity during the summer months were forced to work on short time or even to close temporarily in the winter. Instalment purchase, aided first by specialised finance corporations and later by the banks, created a more even flow of distribution and thus a more uniform output, as contrasted with the previous over-production in summer and under-production at other periods of the year.

Whilst the American motor industry occupies an exceptional position, even in the United States, and no exact comparison is possible between a very rich country of a hundred million inhabitants and Great Britain, yet there is

[1] "Consumer Credit—its Place in the Economic System," an Address by Mr. Gibson Jarvie to the National Association of Finance Companies (U.S.A.), 21.11.28.

obviously much that we can learn from American practice. Already the bulk of English motor-cars are sold on the instalment principle, and this alone has made possible the mass production of light cars on an ever-increasing scale.

There is clearly no reason why the principle of hire purchase should not be greatly extended with most beneficial results to our present industrial and commercial position.[1] There is truth in the statement of Mr. Jarvie, that " consumer credit is a vital necessity to us here in England. In that way lies a new era for us." [2]

[1] On 23rd July, 1930, Consumer Credit Corporation, Ltd., was registered as a public company to carry on much the same type of business as the United Dominions Trust.

[2] In an address to the Croydon Chamber of Commerce, 5.11.28

CHAPTER VII

BRITISH BANKS AND AGRICULTURE

It has been stated that much of the criticism directed against British banking policy arises from the suggestion that, whereas the large capitalist is able to obtain financial accommodation without trouble, either from the banks or from the London Capital Market, the small trader often experiences considerable difficulty in raising new capital, whether for temporary or long-term purposes. Criticism of the banks on this ground has been specially marked in the farming community, as might well be expected from the fact that agriculture is preponderantly a "small man" industry,[1] in spite of its being—from the standpoint of numbers employed—the largest single industry in the country.

In common with our other basic industries, agriculture has for some years been in the throes of a most serious depression. This is, of course, partly a reflection of the unsatisfactory conditions in the country at large, but in the case of agriculture there are, in addition, more long-standing causes.

The Drift from the Land.

During the past hundred years the policy of Britain in relation to this great industry has been in marked contrast to that of other leading nations. The policy of *laissez-faire* and free trade pursued by the country for almost a century and the development of our great manufacturing industries have brought about a gradual but continuous withdrawal of both capital and labour[2] from the land, and, while the

[1] Although agriculture employs about one million workers, little more than one-fifth of the area covered by the industry is under the care of even moderately large holders. In 1927, of a total of 477,600 agricultural holdings exceeding one acre, 311,168 were under 50 acres; 151,477 between 50 and 300 acres, and only 14,955 (3 per cent.) in the relatively large class—above 300 acres.

[2] Figures given by Mr. Lloyd George in the House of Commons on 12th May, 1930, show that, whereas in Germany, France, Belgium and Denmark the percentage of people employed in agriculture ranges from 20 to 31 per cent. of the population, in this country less than 4 per cent. are so employed.

decline in the volume of our agricultural produce and the concomitant decrease in the numbers of our rural population have given rise to a good deal of anxiety, most people have been content to regard these facts as proof that our money and our men were being employed to better purpose in other directions.

In the political arena this drift from the land has been a subject of most violent controversy, and, from a purely economic point of view, the matter is one of the greatest national importance. There is, of course, the incontestable moral or psychological argument, to which great weight is attached on the Continent, that the protection of agriculture is essential to the preservation of a virile and healthy population—that some proportion of people who live in the calmer, saner conditions of country life is essential to combat the less attractive influences of town life and to maintain a healthy and progressive race. Then, in our own case as an island kingdom, there is the compelling argument that the maintenance of a proper balance between agriculture and other industries is vital to ensure some proportion of home-grown food supplies in time of war. Finally, there is the point to which Dr. Murray Butler [1] has directed attention: Agriculture is the industry on which life itself depends because it supplies the human race with its food. Hence it is possible that the present international difficulties and the problem of unemployment are largely due to the fact that both in this country and throughout the world, this vital industry is not established on an economic foundation, and until it is so established " by research, by reflection and by broadmindedness," it seems unlikely that present evils will ever be cured.

The Effect of the War.

During the Great War the urgent necessity of obtaining supplies of essential food-stuffs and the assistance consequently afforded by the Government in various ways gave the industry a much-needed stimulus. For some years farmers enjoyed great prosperity, and their financial position

[1] Address to the American Club, Paris, 28.4.30.

improved remarkably. Contemporaneously, landowners who were faced with the crushing burden of taxation saw in the general rise in land values an opportunity of realising their holdings on advantageous terms and of investing the proceeds in more remunerative channels. Consequently, tenant farmers throughout the country (largely with the assistance of funds borrowed from the banks) were induced to purchase their holdings. Frequently such purchases were made at exorbitant prices, and, in many cases, offered the only alternative to giving up homes which had been occupied by the same families for generations.

Soon after the end of the War, conditions veered in the other direction. From almost unparalleled prosperity the industry was plunged into almost equally unprecedented depression. Farmers saw their erstwhile profits rapidly dwindle and ultimately disappear; in a year or two there were few farms which could be regarded as really paying propositions, and, in spite of the rapid increase in the number of unemployed industrial workers, some of whom might seemingly have found employment on the land, the number of employed agricultural workers markedly declined.[1] This unfortunate position still persists, and investigation has shown that it is due not to one factor, but to a number of general and specific causes.

THE FARMER'S POST-WAR DIFFICULTIES

As soon as the War was over the increase of imports from abroad [2] caused the home market to be deluged with foreign supplies of agricultural products sold at prices against which the home farmer could not possibly compete. His costs of production are, of course, far higher than those of his competitors in the vast agricultural countries of the New World,

[1] In 1929, about 130,000 fewer men were employed in English agriculture than in 1911, a position traceable to (*a*) the prevailing depression in the industry; (*b*) the conversion of arable land to grassland (which employs less labour); and (*c*) the introduction of improved methods involving economies of labour.

[2] The Corn Production Acts (Repeal) Act, 1921, removed the bounty on home-grown wheat imposed by the Corn Production Act, 1917, and thus accentuated the effect of the post-War competition of foreign wheat-growers.

for one important reason that British agriculture has benefited far less than other industries in this country, and far less than agriculture in other countries, from the introduction of machinery.

Then there is the important effect on home farming costs of the steady decline in prices. This has imposed on agriculture an increasing burden of labour costs, for, though produce prices have fallen considerably, wage rates have remained fairly steady, *i.e.* there has been a marked increase in the *real* wage bill of the farmer.[1] One reason for this was that the Agricultural Wages (Regulation) Act, 1924, established local committees which fixed the wages of farm labourers in many districts at rates which were higher than the industry could bear. Furthermore, a marked feature of post-War conditions is the fact that retail prices of agricultural products have fallen appreciably more than retail prices of manufactured products, with the obvious result that the farmer has had, in effect, to give more of his own products in exchange for the manufactured articles which he has had to buy. In regard to wholesale prices generally, however, the position appears to be reversed, with the apparent result that the farmer loses considerably when he buys retail and gains when he buys wholesale. In other words, he is in the position of paying a bounty on the existing charges of retailers and distributors, and of receiving a bounty from the other depressed basic industries.

The difficulties of the farmer through the continual reduction of his profits have been accentuated by the fact that, as compared with the manufacturer, a much longer period must elapse between the time when his costs are incurred and the time when he is recouped for his expenditure by the sale of his produce. This time-lag between the farmer's investment and his return has been placed at a normal of seven months, which is probably a slower rate of turnover than exists in most other great industries. As a result, " crops prepared for and sown at one level of prices,

[1] Agricultural wage costs have actually doubled since 1914 though produce values are only 6 per cent. higher. " Present minimum wages are about 76 per cent. above the rates for 1913, but, since hours are shorter, the cost of labour per hour is approximately double its cost before the War." (*Lloyds Bank Review*, October, 1930.)

giving a high cost of production, may be harvested and sold months later at a lower level, involving a loss on the whole process." [1]

In estimating the effect on the financial position of the farmer of falling prices and of the time-lag between outlay and return, regard must, of course, be had to any compensating relief in respect of his chief items of cost. But though the tenant farmer has benefited from the fact that agricultural rents are little higher than they were before the War, and that the landlord is usually sufficiently sympathetic to grant a reduction of rent when profits are low, such considerations do not affect the owner-occupier who, having mortgaged his farm and having to pay interest at rates fixed much above current money values, has been very badly hit by the steady decline in the prices realised for his produce.

Accentuating the difficulties of the farmer were a number of other factors. First, the fact that, like other producers in "unsheltered" or "exposed" trades, he has had to bear the burden of increased prices for essential personal services and for the products of workers in the sheltered industries. Secondly, the Milk and Dairies Order, 1926, imposed certain minimum sanitary requirements for dairies and cattle-sheds which compelled many farmers to undertake costly improvements.

Finally, it may be observed that in this country the combination movement, both among the farmers themselves and among their labourers, is almost insignificant, with the result that, although agricultural wage rates and the standard of living of farm workers are on the whole extremely low, there are in the industry a persistence of traditional personal relationships and a degree of customary mode of thought which do not favour competitive development.

Difficulties due to Restricted Credit.

The difficulties of agriculture have naturally occasioned great anxiety, and much investigation has been undertaken in an attempt to find some remedy for the unfortunate state of affairs. From the outset it became apparent that, though

[1] *Lloyds Bank Review*, October, 1930.

farmers were feeling very severely the effect of foreign competition and the other factors mentioned, their main difficulties were due to the inadequacy of credit supplies.

Agriculture, like any other industry, requires *short-term credit* for some purposes and *long-term credit* for others.

Short-term credit is required by the farmer as working capital for such current expenditure as wages, the purchase of stock, fertilisers, feeding-stuffs, seeds, etc., and the finance of marketing operations. In overseas countries, especially Australia, these requirements of agriculture are widely recognised and met by the banks, which are specially constituted for the purpose and which lend extensively against chattel mortgages over stock, crops and other forms of agricultural wealth, subject to repayment out of the sale of the produce.

In this country, however, loans have not in the past been freely granted against the specific security of farm stock and crops. On the contrary, bank advances have been granted mainly on the farmer's personal credit, or against the guarantee of a third party, or against collateral security such as shares, life policies and title-deeds. In addition, farmers have relied for a great deal of their short-term credit first, on tradespeople, *i.e.* by the purchase from them of fertilisers, feeding-stuffs, seeds and other farm requisites on credit, and secondly, on their landlords, who, in this country, are particularly considerate to their tenants in that they permit them more often than not to pay their rent, not when it is due, but when they find it most convenient, *e.g.* on the sale of crops or other produce.

Long-term credit is required by farmers to purchase their holdings and to carry out permanent or fixed capital improvements in buildings, in equipment or on the land. In this respect, also, the position in this country has been almost unique, in that, prior to 1928, we had no standard machinery for the granting of long-term agricultural credit. It is true that farmers have received a great deal of assistance in the form of semi-permanent loans from the banks,[1] from solicitors

[1] The Committee on Agricultural Credit appointed by the Government in 1922 reported that, in 1923, £26 million had been advanced by the "Big Five" to agriculturists for the purchase of farms and £20 million for

and from other sources, but in all such cases the uncertainty of the period for which the advance could be relied upon (*i.e.* the fact that the loan could be demanded back at any time on the giving of an agreed period of notice), and the absence of any uniform, prearranged and methodical plan of redemption are factors which have reacted detrimentally to borrowers.

It is true, also, that various land companies, working under the Land Improvement Acts, 1864–1920, and now all amalgamated in the Lands Improvement Company, Ltd., have for many years financed improvements made principally by tenants for life under the Settled Land Acts, and that they have advanced money for periods as long as forty years. But such loans have been granted entirely for land improvement and not for the purchase of farm holdings.

Apart from the assistance rendered by this company, the rule in former times was for the landlord, interested both in the land and in the tenants, to provide such long-term capital as was required for the meagre improvements ordinarily undertaken. With the greatly changed conditions which followed the War, however, this system definitely broke down, though the Lands Improvement Company has continued to do a flourishing business.

During the post-War period a number of factors operated to accentuate the farmer's difficulties in obtaining both short-term and long-term credit. Tenant farmers in general had exhausted their available resources in the purchase of their holdings at top prices during the boom period, but the ensuing collapse in the value of agricultural land (markedly lowering the value of the security which farmers had pledged against their loans) and the widespread depression in the industry necessarily made the banks chary of granting further accommodation and forced them in many cases to demand partial repayment of existing loans. This came at a

current trading purposes. The former amount represented about one-half of the aggregate funds utilised by farmers in this way. Bank loans to agriculturists are made usually at 1 per cent. above Bank rate (minimum 5 per cent.), and, though such loans are frequently renewed at periods of anything between one and six months, they are subject to withdrawal at any time by the banks after an agreed period of notice.

time when the industry was in dire need of extended, and not restricted, credit for the introduction of the new machinery, new appliances and new methods which had by now become essential if English agriculture was to organise itself on anything like a competitive basis. During the boom period little or nothing had been done by way of capital improvements. Faced with an extensive demand for his products at extremely profitable rates, the farmer had found little incentive to cut down his costs or to embark on capital outlay. But when the boom was over and competition from overseas was intensified, long-delayed capital improvements had to be put in hand, and this just at the time when credit was being restricted and the resources of the agriculturist were being drained to meet the high interest payments on his loans and increased production expense in other directions.

There was another source of difficulty. Agriculture is an industry wherein the great bulk of the capital is raised by *personal* credit; *corporate* credit, public issues, and resort by farmers to the London Capital Market for funds are entirely unknown. In the period after the boom, not only were the banks anxious to curtail any credits granted to farmers, but also traders and merchants on whom farmers had been accustomed to rely for credit purchases of seed, implements and machinery were themselves feeling the effects of the depression and were consequently compelled to restrict that accommodation which they had previously granted as a matter of course.

Hence, with the farmers' personal credit exhausted, and the joint-stock method of raising funds not available, the question arose: How was the necessary capital for short-term purposes and for urgent capital development to be provided?

The formation in 1920 of the Farmers' Land Purchase Company, Ltd., was an attempt at meeting some of the difficulties. The intention was that this company should work in close association with the Lands Improvement Company in lending money to farmers to enable them to purchase their holdings, but, though the Lands Improvement Company has continued to be very successful and though it has advanced during its existence upwards of £14,000,000,

the Farmers' Land Purchase Company has done relatively little business and has now been superseded by the Agricultural Mortgage Corporation (to be dealt with hereafter).

Agricultural Credit Abroad.

In direct contrast to the restricted credit facilities available to the British farmer is the position in certain overseas countries where agricultural credit has long received a large measure of State assistance and has been developed on lines calculated to give the farmer financial aid on the cheapest and most efficient lines. A brief outline of the position in France and Denmark will serve to illustrate this fact.

France.—The objects of the French system of agricultural credit are to supply farmers with the necessary means for carrying on ordinary agricultural operations by means of short-period loans and to assist co-operative societies and individuals with capital for long-period operations.

The centre of the system is the *Crédit Agricole Mutuel,* in effect a Government department, through the agency of which State assistance is extended to the local co-operative societies. The funds of this institution are derived from a perpetual loan of 40 million francs, free of interest, granted to the State by the Bank of France in 1897 in consideration for the renewal of its charter.

The Crédit Agricole is under the supervision of the Minister of Agriculture, assisted by a commission of 32 members. This commission meets four times a year and suggests the amount which should be allowed to regional banks (one of which exists in each of the 89 administrative *Départements* into which the country is divided) for the latter to pass on to local societies and individual borrowers. The loans thus made must be for the purpose of providing capital for financing a crop from seed-time to harvest, or for the purchase of farming implements, live-stock or fertilisers, or for improving the land. Loans are not made to those who wish to borrow in order to buy goods not directly needed to produce a crop or crops.

The regional banks were established by a law of 1899. Two-thirds of their capital is subscribed by local agricultural

societies and the remainder by individuals. Each bank is governed by a committee elected from representatives of the local societies. Funds are received from the State, free of interest, up to an amount equal to four times the bank's paid-up capital for periods of five years, subject to renewal. Deposits may be received, up to a certain maximum, but interest thereon must not exceed 5 per cent.

In addition to the financing of local credit societies, the functions of the regional banks have been extended in recent years to making loans to co-operative societies for the production and sale of agricultural produce and to individual farmers for the purchase and improvement of small holdings. For these purposes, special advances are made by the State to the banks.

The purpose of the Local Agricultural Societies is to assist or to guarantee the operations of individual borrowers, and their area of operation is restricted to a particular village or commune. The capital of each of these Societies is subscribed entirely by its members and the shares receive a fixed rate of interest, not exceeding 4 per cent. Management of each Society is in the hands of a council and a committee, and, when established, the Society becomes affiliated to the regional bank of its *Département* by taking up a number of shares in the bank, which grants credit facilities in two ways :

(*a*) When a member applies to the local Society for a loan, he is required to sign a bill which, after approval and signature by the president, is sent to the regional bank. If the latter is in funds, it will immediately discount it. If its funds are low, the president of the bank will sign it—it has then three signatures—and it is rediscounted at the Bank of France.

(*b*) The local Society may apply to the regional bank for a loan (at 3 per cent. interest), generally in proportion to the amount of shares subscribed, and this loan may be used by the Society as required.

The first of these methods is the one usually employed, since it gives the regional bank a greater measure of control over the local Societies.

The local Societies grant loans to individuals at varying rates above 3 per cent., and the size of such loans is sometimes fixed in proportion to the shares held by members, being ten, fifteen or even twenty times their amount. Other societies fix limits to the amounts they will lend for various purposes. Again, the time for which loans are made varies with Societies and according to the purpose of the advance.

In addition to the foregoing, another method of obtaining credit has been in existence since 1906, *i.e.* the raising of funds through co-operative societies in various branches of agricultural activity such as vine-growing, dairy-farming and sugar-beet production. The State makes advances at 2 per cent. per annum through the regional banks to these societies up to an amount not exceeding twice their capital, the loans being secured on the consolidated liability of all their members or on mortgages of their properties. Such loans must be approved by the Minister of Agriculture, while to be eligible for such accommodation the co-operative society must be exclusively agricultural.

Denmark.—The Danish system of co-operative credit is equally well organised. In the first place, there exists throughout the country a network of co-operative credit associations which grant loans redeemable in any period up to sixty-five years on a first mortgage of the property of their members, the object of such loans being to assist members to work and improve their holdings and stock. Before a member is elected to an association, his property is assessed according to certain rules laid down by the Government. When the Directors of the association have decided on the amount of the loan they are willing to guarantee, the applicant deposits with the association a mortgage on his property, in return for which a bond is issued to the value of the loan. This bond is then sold in the open market. (There is a daily quotation for these bonds on the Copenhagen Stock Exchange.)

While the credit associations are allowed by law to make advances up to three-fifths of the value of property, they never in practice grant loans up to this limit. Mr. Harald Faber, an authority on agriculture in Denmark, says that

"without the loans in question, Danish agriculture would have been unable to enlarge and rebuild farm buildings, to increase (as it has done very largely) the number of live-stock, to improve the dairy cattle, to accommodate the farming system to the altered conditions in the world's markets, to buy farm implements, etc., and to build and equip many co-operative factories."

In 1909 it was decided by a large number of local societies to found the Danish Co-operative Bank, "to obtain higher prices for bank drafts, to grant cheaper loans, and to allow higher interest on deposits, but primarily to be ready to support every reasonable co-operative scheme submitted to it." Local societies become members of the bank by taking up shares in proportion to their respective turnover, while private persons can also co-operate in the scheme by joining "bank societies" which become members by taking up shares according to the number of their members.

Finally, there are in Denmark a number of co-operative village banks, the first of which was formed in 1915. The object of these is to grant loans to members for short periods to provide working capital for ordinary agricultural purposes, and one of the main factors leading to their development was the desire to obtain a more even distribution of savings accumulated in the local co-operative credit associations.

Agricultural Co-operation in Britain.

Although agricultural co-operation in the foreign countries mentioned has undoubtedly reached a higher stage of development than it has in Britain, it is a mistake to minimise the importance to British farmers of the movement, which received a marked impetus from the formation of the Agricultural Organising Society in 1901. To the Plunkett Foundation is due the credit for demonstrating [1] that, in certain departments, the co-operative movement in this country is fit to cope with any demands which may be made upon it. Successful specialised societies are to be found engaged in the marketing of wool, meat, dairy produce, flour, vegetables

[1] See "Agricultural Co-operation in England" (Trustees of the Horace Plunkett Foundation) (Routledge).

and poultry, while several large organisations exist for the purpose of enabling the farmer to purchase feeding-stuffs, fertilisers, seeds and other requirements on economical terms.

But, as is shown by the most valuable Survey referred to, only nineteen out of every hundred English farmers are as yet members of an agricultural co-operative society, and only twenty-eight out of every hundred do any part of their business with such a society. Clearly, such statistics point unmistakably to the fact that there is ample room for development, especially in the direction of national organisation. Moreover, the report emphasises the necessity for much more concerted action in the marketing of live-stock, meat and eggs, although, in regard to the last of these, the introduction of the National Marking Scheme has proved to be a most healthy stimulant. The Survey suggests, too, that there is room for great improvement in the co-operative marketing of fruit and green vegetables, particularly with a view to dealing effectively with seasonal and other surpluses.

On the whole, the Report concludes that the prospects of co-operative development in English agriculture are not discouraging, but without doubt the great barrier to progress is to be found in the unenterprising and selfish spirit unfortunately only too prevalent amongst the farmers themselves.

The Agricultural Credits Act, 1923.

Influenced by the acknowledged gravity of the position of agriculture in this country, by the obvious inadequacy of credit facilities as compared with those existing abroad, and by the important national considerations to which reference has been made, the Government was induced to take action, through the Ministry of Agriculture, with a view to finding some solution to the problem.

The result was the passing of the Agricultural Credits Act, 1923, which was designed to afford facilities to farmers for raising both long-period and short-term capital. In regard to the former, the Act authorised the Public Works Loan Commissioners to make advances to any approved association so that the latter could lend funds on mortgage at a rate not to

exceed that from time to time prescribed by the Treasury. Certain alterations were also made in the Lands Improvement Acts, 1864 and 1899, with the object of enabling the Lands Improvement Company to advance money at prescribed rates for semi-permanent purposes. Furthermore, the Act empowered the Ministry of Agriculture to encourage the extension of Agricultural Co-operative Societies, which were authorised to make advances to their members for a period not exceeding five years and for such purposes as the Ministry might approve. For one reason or another the facilities which thus became available did not meet with much approval, and the Act soon became a dead letter.

The next move was an investigation into the position of the industry by the Agricultural Tribunal appointed by Mr. Stanley Baldwin's Government. This Tribunal in its minority and majority reports, published in 1924, made a number of suggestions and recommendations for improving the prevailing conditions, notably on the vexed subject of credit supplies to the industry. It became obvious, however, that the whole question of credit supplies to farmers needed further detailed investigation, so the Ministry of Agriculture instituted an inquiry (under the Chairmanship of Mr. R. R. Enfield) into the economic aspects of the matter. In February, 1926, the findings of the investigators were published as the so-called "Enfield Report," probably the most exhaustive and instructive document on British agricultural credit that has ever appeared.

Report on Agricultural Credit, 1926.

In instituting the inquiry, the Ministry of Agriculture obviously had before it the widespread suggestion that in granting credit facilities the joint-stock banks were more backward in the case of agriculture than they were in regard to our other basic industries. Further, the Ministry was clearly determined to investigate the complaint that, since the management of the banks had become concentrated in London, the farmer had received far less assistance from local branches than had been granted to him by the private bankers of the last century.

The general strain of the Report was to refute this suggestion, and to show that the joint-stock banks had not been niggardly so far as the farmer was concerned. On the contrary, they had provided the agriculturist with long-term credit for the purchase of his holding, with instalment credit for the purchase of equipment and with short-term credit for his current or working needs—all usually lumped together in an overdraft on current account. But as the demand of farmers for credit had increased during the post-War depression, the banks could not extend their already heavy commitments to the industry. They have never been and do not profess to be agricultural banks in the continental and American sense, but, having to safeguard the interests of their depositors, they are compelled to keep their advances " alive " and not permanently locked up.

Hence, the Report confirmed the generally accepted view that there was room for a considerable extension of existing agricultural credit facilities, both for short-term and long-term borrowings, and it suggested that, although the banks did their best in the nature of things to meet the demands made upon them, yet there was, from the farmers' standpoint, much room for improvement. Apart from the fact that the lack of credit distinction (*i.e.* between short-term and long-term needs) tended to leave the industry financially water-logged, there was the disadvantage that the cost of a bank overdraft is never fixed and ascertainable: the interest thereon varies with the Bank rate, and tends to increase just at the time when the farmer's other financial needs are greatest.

Peculiar Features of Agricultural Credit.

On the question of agricultural credit generally the Report gave some illuminating information. While emphasising the fact that the value of any credit system depends as much on the efficiency of the lenders as on the efficiency of the borrowers, it demonstrated that the farmer is, in general, a most inefficient borrower. That is to say, he does not understand the economic function of credit, and is usually unable to measure the advantage to him of the use of credit in his business. In this regard the Ministry suggested that the

farmer should be educated by the combined efforts of agricultural colleges, the banks and the National Farmers' Union.

The second point emphasised by the Report is that farmers as a class are distinctly averse to borrowing in any form. But it was suggested that this prejudice springs as much from a lack of appreciation of the value of credit to agriculture as from a wholesale objection on the farmer's part to let it be known that he finances his business on borrowed money. The Report stated that the burden of the evidence was to the effect that the majority of small farmers have yet to learn that they should not regard borrowing as a last resource or as a mark of distress, but as the proper means of carrying on an industry which is not capitalised, as are other industries, on the joint-stock plan. This again was thought to be largely a matter of education. Furthermore, it was proposed that in order to promote the development of agricultural credit on sound business lines, the banks and others interested in agricultural finance should co-operate, as is done in U.S.A., to educate farmers to keep books, to have checking accounts at the bank, to have a minimum number of creditors, to meet their obligations promptly, and to apply to all departments of the farm the principle of scientific cost-keeping.

The Report regarded the existing system of borrowing by the farmer from trades-people, auctioneers, etc. as pernicious, not only because it is impossible for the farmer to determine the cost of such credits, but also because it involves him in credit entanglements, which frequently react to his disadvantage. For example, he may obtain seeds on credit on the understanding that he sells his produce to or through the supplier—not always on as good terms as are obtainable elsewhere. Borrowing from a landlord was also strongly deprecated, though it is, fortunately, a method which is subject to distinct limits.

Borrowing from the banks by overdraft against security was regarded as unquestionably the best means of obtaining *short-term* credit for agricultural needs. This method has the advantage that the wide distribution of the banks

rivalled resources. And the Report stated that if there has been difficulty, it has not been due to lack of knowledge or lack of sympathy on the part of the banks, but to the inability of agriculture to offer the wealth it creates—its stocks and its crops [1]—as security for advances. In the past, the only method of taking a charge over these items was by bill of sale, but the enforced publicity of that method was an insuperable disadvantage from the point of view of the borrower, while at the same time it made it practically impossible for him to obtain further credit. Hence the problem which had to be faced and solved in regard to the provision of short-term credit for agriculture was that of mobilising the wealth of the industry so as to render it acceptable to the banks as collateral, while at the same time making the form of security not unacceptable to the farmer.

SUGGESTED REFORMS.

The Report of the Ministry of Agriculture did much to reveal in their true perspective the problems with which agriculture in this country is faced. The Report made quite clear the marked need for new financial facilities, more especially for the supply of long-term credit which should be directed to removing the handicap from which the British farmer was suffering in comparison with farmers in other countries where, as we have stated, credit arrangements have long been more adapted to the peculiar conditions of the industry.

With these facts in view, the Ministry made the following proposals in regard to the future provision of *short-term* credit :

(*a*) That the machinery of " short-term " credit should be concentrated in the hands of the banks, where the cost of

[1] In 1925, the year of the investigation by the Ministry of Agriculture, the gross outstanding loans of the banks to agriculture for trading purposes amounted to approximately £25 million, whereas the value of stocks and crops on the farms in Great Britain at harvest time (exclusive of plant and machinery, of tenant rights, of unexpendable manures, of expendable stores, and of milk and eggs with their products) was roughly estimated at £400 million.

credit is known, and where the farmer can escape from the abuses which the tradesmen-credit system often involves. But to make the bank system as fully effective as possible the banks should be empowered to take a charge upon the wealth on the farm.

(*b*) That legislation should be enacted enabling a valid charge, in the form of a chattel mortgage in favour of the banks, to be given upon certain classes of farm produce (to be defined) ranking in priority to all other charges except those in respect of rent, rates, and taxes, and to be used exclusively for the purpose of securing "short-term" bank advances to farmers.

(*c*) That, as an alternative method, the banks should be empowered, instead of taking a specific charge by way of a chattel mortgage on certain defined property, to take a floating charge upon the liquid assets of a farm or of a co-operative marketing society, also ranking in priority to all other charges except those in respect of rent, rates and taxes. This arrangement might be specially applicable in the case of the latter, and might simplify the procedure.

(*d*) That a central bankers' register should be established in which these chattel mortgages or floating charges could be registered, open to inspection by the banks, but not open to inspection by the public. This would protect the banks and avoid the publicity about which the farmer is naturally sensitive.

(*e*) That the mortgagor should be left free to dispose of produce which is subject to a chattel mortgage when he wishes, so that he may take full advantage of a favourable market, but that he should be required to notify the bank when he does so, and pay the proceeds to the bank up to the amount of the debt. Penalties sufficient to act as a reasonable deterrent should be prescribed for failure to comply with these conditions.

By these means the farmer would be induced to borrow chiefly from the banks and to pay cash to the merchant, and so would take advantage of the cash discount usually available for prompt payment. On their side, the banks would receive a much better security than they had been able to obtain under the old system.

It was further proposed that where there is need of co-operative credit, steps should be taken to form agricultural credit societies similarly constituted to the then existing ones, but with the object, not of borrowing money from the State, but of endorsing their members' promissory notes in respect

of advances from the banks. The security behind such societies would remain their whole assets, including their share capital.

Proposals for a Central Land Bank.

So far as the provision of *long-term* credit is concerned, the Ministry proposed that the principle of the mortgage credit institutions in Germany, or of the Federal Land Banks in U.S.A., should be applied in this country, with necessary modifications. It was suggtedes that a Central Land Bank should be established, with the object of making long-term mortgage loans through the joint-stock banks and their branches, and of raising money for the purpose by the issue of debentures to the public.

The bank would be governed by a board of directors, and would be empowered to lend money up to a prescribed period, secured by first mortgages upon agricultural land and buildings. Its funds would be obtained by the issue to the public of debentures based upon these mortgages, and the limit to such issues would be a fixed multiple of the bank's capital and surplus funds. Loans would be made through the joint-stock banks and their branches, who would act as agents for the Central Land Bank.

It was further proposed that the Central Land Bank should also be empowered to handle the "intermediate" credit business in connection with land improvements, and such operations as silage, drainage and the erection of minor buildings.

The scheme of the Central Land Bank, it was suggested, would have the advantages that it would: (*a*) establish for the first time in this country a uniform system of long-term mortgage credit for agriculture; (*b*) give new facilities to farmers who wish to purchase their holdings, by providing mortgage credit at a reasonable rate of interest, in a standard and universally applicable form, and free from the risk of unexpected foreclosure; (*c*) create a standard agricultural investment, thus opening up a new channel through which capital could enter agriculture; (*d*) be administered through

the joint-stock banks, and have the benefit of their knowledge and experience; (c) be simple and secret.

The Agricultural Credits Act, 1928.

Unfortunately, progress in the direction indicated was held up by the disastrous general strike of 1926 and by the consequent stringency of money, but the matter was kept in the forefront of the Government programme.

There were three main courses open if the suggestions embodied in the Report were to be carried into effect. The Government might have arranged to provide the necessary credit facilities itself, much in the same way as it does in connection with loans for public works; but this method was open to a number of disadvantages, of which the most obvious was the difficulty of getting into touch with would-be borrowers. Secondly, it could have adopted the method applied in other countries and have formed an entirely new and independent agricultural credit bank; but to this course, also, there were obvious objections. Such an institution would be useless without a wide network of costly branches or agencies, and these would have to be set up before the extent of the demand for the new facilities could actually be tested. Finally, there was the plan of forming, with the help of the existing joint-stock banks, a new institution—a National Agricultural Credit Bank—which, while it would not obtrude on the business of the joint-stock banks as deposit bankers, would nevertheless have the benefit of their funds, branches and wide experience of agricultural needs.

The last alternative was known to be favoured by the banks, which had indicated their willingness to put up the required capital, provided there was some measure of Government assistance or guarantee in connection with the operations of the institution. In other countries there are many institutions of this type which lend money for land development against mortgages, and issue to the public bonds secured against the mortgages held. The rate charged by these institutions on loans must necessarily be influenced considerably by the rate at which they can raise funds, and it

was apparent that, if bonds could be issued by such an institution in this country, with a Government guarantee or, if the interest on the bonds issued were paid free of tax, the institution would not only be able to raise money more cheaply, but would also be in a position to grant cheaper accommodation to the farmers—an important object which any scheme of financial assistance to agriculture would have to keep in view.

Early in 1928 the Government called upon the leading joint-stock banks to co-operate in a scheme for the formation of a central mortgage bank on the lines suggested in the Report of the Ministry of Agriculture. In May, 1928, after many conferences with the banks, the farming interests and the trading interests affected, a Bill was introduced and later placed on the Statute Book "to secure, by means of the formation of a company and the assistance thereto out of public funds, the making of loans for agricultural purposes on favourable terms, and to facilitate the borrowing of money on the security of farming stock and other agricultural assets, and for purposes connected therewith." The Act dealt with both long- and short-term credit for agricultural purposes, and, briefly, its provisions are as follows.

Short-term Credit.

The Act aimed at encouraging the farmer to go to banks approved by the Ministry of Agriculture for short-term credit instead of relying on trade credit. To this end it introduced a new form of charge, known as an "agricultural charge," which a farmer may create in favour of a bank over all or any of his ordinary assets, including stock and crops. Such charges may be fixed (in the case of semi-durable assets) or floating (over live-stock and other less durable assets), and may secure either a defined or a fluctuating amount. They must be registered at the Land Registry within seven days of their execution and give a first claim to the property charged subject only to claims for rent, rates and taxes, thus taking priority over bills of sale and other charges. Bankers are thus provided with an acceptable security, while the disadvantages of undue publicity have

been overcome by the provision that, though all such charges must be registered and the register kept open to inspection by any person, publication of agricultural charges is to be unlawful and persons responsible for such publication are liable to a fine not exceeding £20. From the borrower's point of view the method is extremely cheap, since the only expense involved is the registration fee of 1*s*.

In general terms, the aim was to canalise the stream of short-term credits to agriculture in the banks, instead of spreading it among tradesmen, private guarantors and other more or less unsatisfactory channels.

Long-term Credit.

The Act aimed at providing for the long-term needs of the farmer by the establishment of a central mortgage institution to grant long-term loans for a period of not more than sixty years against mortgages up to two-thirds of the ascertained value of agricultural lands or agricultural improvements under the Land Improvement Acts. The new institution was to be financed by the banks, and should come to the money market for further funds in the ordinary way, subject to the agreement of the Government to contribute a substantial amount to the reserve fund of the institution [1] so as to induce the public to take up its debentures at a low rate of interest. The debentures were to be given the status of a trustee investment, and the dividend on the share capital was to be restricted to 5 per cent.

Borrowers from the new institution are required to meet fixed interest and capital repayments at half-yearly intervals, so that the scheme applies to the acquisition of land the same principles as building societies have so successfully applied to the acquisition of homes. The intention is that farmers shall have the advantages of being able to borrow at low rates

[1] The Government undertook to underwrite the first £5 million of Debentures issued, and to invest therein £1,250,000. It also agreed to contribute £10,000 per annum for ten years towards the overhead charges of the new corporation, and to advance, free of interest, an amount equal to the paid-up capital, but subject to a maximum of £1,000,000. With the capital at £650,000, and assuming money is worth 5 per cent. per annum, the waiving of interest on the Government loan is equivalent to a grant of £32,500 a year.

(not more than 6 per cent.) and that they shall know precisely the extent of the loan payments which they will have to meet each half-year. In this way they will be relieved of the uncertainty which has existed in the past on the matter of interest charges and on the matter of repayment, because a bank is entitled to call in an ordinary loan at any time at its discretion—possibly when most inconvenient to the farmer.

The Agricultural Mortgage Corporation.

Immediately the Act was passed, steps were taken to set going the new mortgage institution, which, under the title of the Agricultural Mortgage Corporation, Ltd., was registered on 7th November, 1928, with a nominal capital of £650,000 in £1 shares.[1] The first directors were Sir Harry Goschen (Director, National Provincial Bank); Sir Otto Niemeyer (Director of Vickers-Armstrong); Mr. J. H. C. Johnston (Director of the Mercantile Investment and General Trust); Mr. W. Gavin (Director of Strutt-Parker (Farms)); and Sir George L. Borstow (Director of the Anglo-Persian Oil Company) as the nominee of the Treasury.[2]

The intention of those responsible for the formation of the Corporation is that it shall lend sums for agricultural purposes at rates of interest not higher than are required to meet its expenses and a dividend not exceeding 5 per cent. to the shareholding banks. It is with this object that so large a proportion of its working capital is being provided by the State free of interest, and, to the same end, it is provided that any surplus profits shall be applied in reducing the interest payable by existing borrowers and in improving the terms for future advances. Thus the test of the success of the new Institution will be, not the rate of its declared dividends, but the total amount of its loans and the favourable terms on which it makes them.

[1] These were subscribed at par by the Bank of England, Barclays Bank, the District Bank, Glyn Mills & Co., Lloyds Bank, Martins Bank, the National Provincial Bank, the Westminster Bank, Williams Deacon's Bank, and the Manchester and County Bank, *i.e.* all the leading joint-stock banks other than the Midland, which refused to participate in the scheme.

[2] So long as any part of the advances made to the company by the Government (through the Ministry of Agriculture) remain outstanding, one of the directors must at all times be nominated by the Treasury, and no alteration may be made in the Memorandum or Articles of the Corporation without the consent of the Minister of Agriculture.

To some extent the activities of the Agricultural Mortgage Corporation overlap those of the Lands Improvement Company, but, although they are in some respects in open competition, there is a high degree of co-operation between the two bodies. Moreover, certain distinct differences in business and procedure will assure to both institutions a reasonable share of whatever business is offering. Whereas, for example, the Lands Improvement Company may advance money for *any* purpose connected with land, including the building of houses, the development of land and the redemption of tithes, the Agricultural Mortgage Corporation makes advances to landowners and farmers for purely agricultural purposes only. On the other hand, the Improvement Company cannot advance money on long-term mortgages—one of the main functions of the new organisation. Other points of distinction are that the Improvement Company deals direct with borrowers *in any part of Great Britain*, whereas the Mortgage Corporation deals only through one of the shareholding banks, and confines its activities to *England and Wales*. Thus the Lands Improvement Company is not likely to be greatly affected by the activities of the new Corporation, in spite of the fact that the latter receives a State subsidy, without which it could not, of course, grant long-period loans on the markedly advantageous terms contemplated by the Act.

Details of the facilities now afforded by the Corporation are set out in Appendix III, wherein is reproduced a leaflet issued by the Institution for the information of intending borrowers. In brief, a farmer who requires a long-period loan applies at a branch of one of the participant banks, and the branch arranges for the valuation of the property by a local valuer at a fixed fee to be paid by the applicant (whether he gets the loan or not). If the Corporation decides to grant the advance, arrangements are made for the title to be investigated by a local solicitor. If everything is in order, a mortgage deed is prepared to which is attached a schedule setting forth particulars of the half-yearly instalment payments to be made by the borrower in reduction of the loan. On the execution of the deed, the funds are handed over by the

instalments in reduction of the loan as they fall due and to debit his account to the credit of the Corporation, which maintains an account at the head office of each of the ten shareholding banks.

A somewhat similar procedure applies to the granting by the Corporation of advances for a period not exceeding forty years for land improvement, but in these cases an inspector of the Ministry of Agriculture has first to be satisfied that any proposed improvement will more than repay its cost. The expenses of investigation by the Ministry are borne by the applicant, but the Corporation makes no charge for its own services in the matter. The period of the loan in this case is intended to cover the life of the proposed improvement, but the advance may be redeemed by the borrower at any time at his option.

Progress of the New Corporation.

The measure of success which has attended the establishment of the Agricultural Mortgage Corporation may best be judged by the following extracts from the speech of the Chairman, Sir Harry Goschen, Bart., K.B.E., at the first Annual General Meeting held on Wednesday, 16th April, 1930. In the course of his remarks, the Chairman said:

"We opened for business on 14th January, 1929, and it at once became apparent that the facilities which the Corporation was formed to provide met with a ready response from the agricultural community; indeed, the amount of applications we received in the first few weeks of our existence taxed the capacity of our staff to the utmost.

"There must of necessity be some delay between the receipt of an application for a loan and the final payment to the borrower of the amount granted. The examination of the title to the land pledged as security for the loan often entails the scrutiny of numerous and intricate documents, and the inspection and valuation of the properties as well as the legal formalities connected with the preparation and execution of the mortgage involve time, care and attention. I think it is a matter for congratulation, however, that delay in the completion of our transactions has now been reduced to a minimum, and all

formalities connected with loans are dealt with very expeditiously. For instance, money has been actually paid over to borrowers within thirty days of receiving the first application, but such expedition is possible only when all documents connected with the transaction are quite simple and devoid of all complication.

"By the middle of May, 1929, all our funds available for lending on mortgage had already been paid out in long-term loans, and during the latter part of June the Corporation decided to make its first issue of debenture stock. Accordingly, £5,000,000 of 5 per cent. debenture stock was issued at par, and proved an immediate success. . . . It is now, I am glad to say, quoted at a substantial premium. . . .

"Up to 31st March last we had completed 1374 long-term loans on mortgage, amounting to £4,168,590. The valuations of the properties forming the security for these loans totalled £6,605,495, and showed not only a substantial margin on the amount lent, but, in addition to the other resources of the Corporation, ample security for our debenture issue. In addition to the sums I have just referred to as actually paid out, further loans totalling £1,137,655 have been granted by the directors, subject to the satisfactory completion of the legal formalities.

"The applications for improvement loans have been somewhat small in number and amount, but advances totalling £8781 had been completed by 31st March, and, in addition, the directors had sanctioned further loans to the amount of £12,991.

"Up to the close of our financial year, 2692 applications for loans amounting to a total sum of over £9,000,000 had been received by the Corporation: of these, 1703 had been approved by the directors and accepted by the applicants.

"Payments by farmers of interest and principal have been punctually made, and already amount to £67,873, while payments overdue for more than seven days total less than £650.

"Our loans are well spread over the whole country, and advances have been made on the security of land in every county of England and Wales except one, but perhaps the counties of Lincolnshire, Yorkshire, Somerset, Northumberland and Cambridgeshire have appreciated the facilities offered to a greater extent than other districts.

"The smallholder has had consideration equally with the owner of a large acreage; indeed, we have granted loans of even £100, and advances have been made on properties as small as two or three acres.

"Applications for loans continue to reach us by every post, and I think that I may say that the volume of business which has been submitted to the Corporation affords an ample justification for the opinion of those responsible for the scheme, that there was a real demand among the farming and land-owning community for facilities for obtaining long-term loans on the security of land, and

I venture to think that the experience of our first year has shown that the formation of the Agricultural Mortgage Corporation has done much to meet the requirements of an important and hardly-pressed section of our industries."

THE LABOUR GOVERNMENT'S LAND POLICY.

In spite of the good work done by the Agricultural Mortgage Corporation and by other agencies, and in spite of the vast amount of thought and time which has been given to the question of agricultural conditions, the depression in the industry and the drain of workers from the land during 1930 were more pronounced than ever. Accordingly, on the 1st August, 1930, Mr. Snowden in the House of Commons unfolded plans evolved by the Labour Government for arresting the decline of employment on the land, fostering the growth of home-produced food supplies and, in general, bringing prosperity to the country-side. At the time of writing the various proposals have still to be implemented, but they may be briefly reviewed.

It is proposed, in the first place, with the help of the local authorities and through the Ministry of Agriculture, to make further land available for the small cultivator,[1] and, secondly, to establish an Agricultural Land Utilisation Corporation to develop large-scale farming on business principles with the utmost possible application of improved methods. The Corporation will afford farmers a practical business training on modern lines and demonstrate the most scientific methods of land cultivation with a view to securing quicker and more general education for agricultural improvement.

Cereal farming, in view of its critical condition, is to receive urgent consideration, especially in regard to the establishment of Import Boards, the implementation of bulk purchase and the stabilisation of prices. With the same object, the Government introduced a Marketing Bill, to authorise the setting up of large-scale commodity Marketing Boards and to provide long- and short-term credit facilities for the marketing of a number of agricultural products—milk,

[1] With this object the Ministry of Agriculture is to be given power to acquire and manage land for such purposes, in areas where the local authorities are not sufficiently active.

potatoes, hops, wool, cereals, cheese and live-stock. The administration of the schemes is to be financed out of moneys provided by Parliament, while the interests of consumers are to be safeguarded by the establishment of a " Consumers' Committee " with powers of appeal to a Committee of Investigation set up to advise the Ministry of Agriculture.

Need we Deplore the Decline of Crop-Growing?

It is scarcely to be doubted that these developments and the accession of credit facilities implied in the establishment of the Agricultural Mortgage Corporation will lead to considerable improvement in the position of our leading basic industry. Moreover, there is some ground for optimism in the fact that, although agriculture as a whole has in recent years passed through a period of marked depression, certain sections of it have not done so badly—thanks mainly to the fact that English agriculture is not one uniform industry. " East Anglian arable farming has little likeness to West Country grass-land dairying, or to the grazing of hill sheep on southern downs or northern moors and fells. Thus economic conditions disastrous to one use of the land may either hardly influence or actually benefit other methods. Cheap corn, ruinous to the growers of cereals, is an advantage to those who buy feeding-stuffs for live-stock." [1]

So we find that, whereas the section of the industry concerned with the raising of crops has for many years past shown signs of gradual decline, the decay is by no means general throughout the industry. The live-stock trades are apparently holding their own, while the dairying and poultry branches are increasingly prosperous. Taking all the sections together, there is reason to believe that the value of our total agricultural output is higher than it was twenty years ago, though it is, of course, very differently distributed by reason of great changes which have for years been going on in the internal structure of the industry.

If these are the facts—and there seems no reason to assume otherwise—then even the most pessimistic should have some reason to be satisfied. For, if we take a really broad view of

[1] " Agricultural Depression." (*Lloyds Bank Review*, October, 1930.)

the position, we have to acknowledge that the days of Britain as a corn-growing community have long been numbered.[1] The necessity of supporting a dense population is the inexorable fact which affords the best of all reasons for permitting the cultivation of wheat to fall into a relatively minor place. Our people must have bread, and they can obtain it far more cheaply from the relatively undeveloped expanses of the New World than by any intensive wheat-growing programme at home. And no moral or psychological reason would seem sufficient to outweigh the advantages of feeding and clothing our teeming masses as well and as cheaply as we can.

> "Great Britain lives, and must for the most part continue to live, by the sale of her manufactured products to countries overseas. . . . The country can no more feed its present population from native resources than a modern city can support itself from the produce of fields and market gardens within its boundaries. Like a city, it must obtain supplies from without and pay for them either by goods produced within its frontiers or by services which can be exchanged for goods. Moreover, the production of goods implies raw materials, and these again must as a rule be imported from abroad. . . . Great Britain is a gigantic urban area, dependent for its very existence on the supply of food and raw materials from without, and these are purchased largely by the products of its manufacturing industries. The only native resources of the country are to be found in its labour, skill, capital and organisation, which together form the basis of its industrial activity and of the production, for use or sale, of manufactured goods. For some of these goods, such as cotton, sale abroad is even more important than consumption at home. . . . The population of Great Britain has grown up under this special system; it can continue to exist, at its present size and with its existing standard of life, only by the perpetuation of the conditions of its growth. It must sell a large part of its manufactured products abroad. . . . Moreover, most of the goods consumed in Great Britain itself depend on imported raw materials for which payment must be made in some form. We may reduce our imports somewhat, but we shall need always a large export in the form of manufactured goods." [2]

If we are prepared to face these facts, we shall find no reason to deplore the gradual decline of those sections of

[1] "Corn represents in value only about 10 per cent. of the total produce sold from English farms." (*Lloyds Bank Review*, October, 1930.)
[2] "British Industries and Empire Markets," by A. J. Sargent, M.A., March, 1930.

agriculture concerned with the growth of cereals. Without doubt the Government, the banks and the Agricultural Mortgage Corporation are doing good work in seeking to bring greater prosperity to this branch of the farming industry—especially in so far as their efforts are based on the desire to provide employment by making available small holdings, cottage holdings, allotments, market gardens and poultry holdings for the workers. There is everything to be said for encouraging the extension of peasant cultivation and small-scale intensive farming, and for bringing back to the land some of those whom the process of rationalisation has freed from industry. Let us, therefore, by all means encourage those sections of the farming industry—dairying, cattle-rearing and market gardening—which are paying their way and holding their own against foreign competition.

Dairy farming and market gardening, especially, deserve every possible encouragement. The conditions are excellent and the products are good. Denmark is a leading dairy-producing country not because of any natural advantages, but because she had no adequate alternative; and what Denmark has done with such success, Britain can do at least as well. Naturally there are difficulties. Few potential dairy farmers have the capital necessary to enable them to wait for the return, and little progress can be made in the absence of Government schemes to subsidise their efforts. Moreover, the possibility of over-production leading to surpluses will have to be faced, especially in the case of milk and vegetables, while steps will have to be taken to obviate unfair competition arising from the dumping of foreign products in this country.

Fortunately, the developments already envisaged and the probable growth of co-operation in the buying of machinery, seed and materials hold out the hope that we shall soon be able to divert at least some part of the stream of unemployed into the productive channels of small-scale intensive farming. The markets for the dairy products, fortunately, lie near at home, and our rapidly growing cities offer a centralised and expanding market.

So far as corn-growing is concerned, however, the con-

clusion seems inevitable that there are other far more profitable outlets for Government intervention and financial cooperation. As long as we adhere to the principles of free trade—or even of Empire free trade—in essential foods, any marked expenditure of time, energy or communal funds to encourage corn-growing would appear to be largely misplaced. We shall be able to face future world conditions with a far greater prospect of success if we apply our energies, not to an industry which has proved incapable of sustaining itself in face of foreign competition, but to those industries whose products still find a ready acceptance in the world's markets. Our resources of skill, man-power and finance must be concentrated on increasing the efficiency and lowering the costs of our manufactured products and of our international financial services, so that the extended demand for them by other nations will assure for our masses an ample command of Nature's greater abundance in other lands.

The hope of Britain lies in her green fields—not for raising crops of relatively small value which can be purchased much more cheaply elsewhere, but for newer, better and larger factories, in which her unexcelled manufactures can be produced under more efficient and more competitive conditions. And if the necessary leadership and money cannot be found within our own borders to develop our unexampled resources, then why should we not, as Mr. A. J. T. Taylor has pointed out, "openly engage not only members of the Empire, but Americans and Europeans to come here with their money and enterprise and build new factories which would employ our raw materials, and, most important of all, our workmen"? [1] In some such direction, without doubt, lie great possibilities for future prosperity.

[1] "Britain as a Centre for Foreign Manufacture," *The Financial Times*, 24.5.30.

CHAPTER VIII

THE GOVERNMENT AND THE SITUATION

SINCE banking technique and monetary policy are now recognised to have a most important bearing on the nation's general economic position, it is only to be expected that the problems discussed in this book should have received the earnest attention of successive post-War Governments. As a result, several representative committees have been appointed to investigate the matter, and much useful work has been done in the direction of sifting and ventilating the various aspects of our monetary and industrial difficulties and in collecting a vast amount of information thereon. Clearly, our survey would not be complete without some reference to these activities of the Government, whilst a brief review of certain aspects of State action in regard to the general economic position will at least serve to demonstrate or emphasise the fact that banking technique and monetary policy are far from being solely responsible for the nation's present difficulties.

THE FARINGDON COMMITTEE ON FINANCIAL FACILITIES FOR TRADE.

Even before the end of the War the Government was alive to the necessity for examining our monetary and financial machinery with a view to preparing for post-War reconstruction. In 1916 a Committee under Lord Faringdon was appointed by the Board of Trade to look into the question of financial facilities for trade, with particular reference to the financing of large overseas contracts, and was authorised to prepare a detailed scheme for the provision of such facilities.

After wide inquiry, this Committee came to the conclusion that, to a considerable extent, there were in existence in this country both the machinery and facilities for the finance

alike of home trade and of large overseas contracts. But it nevertheless expressed the opinion that the existing arrangements were faulty in that the various banking facilities were not effectively co-ordinated, and it proposed, therefore, that a new institution should be formed for the special task of assisting the development of British industry and manufactures—" to make advances after careful examination for the extension of existing manufacturing plant, or perhaps for the amalgamation or co-ordination of certain works, so as to reduce the cost of production," and to take " a leading part in the inception of transactions and assist in connection with the machinery of overseas business."

On the 21st April, 1917, these proposals were carried into effect by the incorporation by Royal Charter of the British Trade Corporation, with an extremely influential Board of Directors under the Governorship of Lord Faringdon. Since its establishment the Corporation has essayed to encourage British trade *directly* by filling the rôle of an industrial bank similar to those in operation on the Continent and *indirectly* by establishing branches and business connections in foreign fields (such as the Levant and Southern Russia) where British banks were not formerly represented.

Unfortunately, political instability, the ups and downs of trade and the subsequent world-wide depression have seriously interfered with the business of the Corporation and (except in so far as its subsidiary, the Trade Indemnity Company, is concerned—see below) have prevented that progress which at one time had been hoped for. But it is to be anticipated that the return of more favourable conditions will enable the Corporation to carry out at least some part of its ambitious programme for the furtherance of our overseas trade and for the development of our home industry.

The Cunliffe Committee on the Currency and Foreign Exchanges, 1918.

In 1918 the obvious necessity for a thorough and expert investigation of the problems which had arisen in connection with the currency and the foreign exchanges led to the appointment of the so-called Cunliffe Committee. The

recommendations of this body have already been mentioned in Chapter II, and, as is there stated, they formed the essential basis of the nation's subsequent monetary policy.

THE BALFOUR COMMITTEE ON INDUSTRY AND TRADE, 1924.

The next important step was the appointment by Mr. Ramsay MacDonald, in 1924, of a Committee, consisting of well-known economists, bankers and business men, under the Chairmanship of Sir Arthur Balfour, charged with the task of investigating the conditions and prospects of British industry and commerce.

This Committee performed a great deal of useful work in collecting an immense amount of data bearing on the industrial position, and the recommendations in its various reports not only formed the basis of a number of measures for the palliation of unemployment, but also prepared the ground for further detailed investigation in certain directions. The exhaustive nature of the inquiry is indicated by the fact that the final Report of the Committee was not issued until March, 1929, when a number of important recommendations were made dealing with the necessity for economy in State expenditure, the need for rationalisation in industry, the desirability for stability and continuity in the matter of tariff policy, and the importance of relieving industry of the burden of taxation. In the interim, however, effect had already been given to some of its earlier recommendations.

On the question with which we are specially concerned in this book—the provision of banking and financial facilities for trade and industry—the final Report of the Balfour Committee stated that the requirements were, for the most part, being adequately met by our existing banking system. The Committee also expressed the opinion that, though the restoration of the gold standard was bound to involve some degree of transitory dislocation, it was unquestionably necessary and must prove ultimately beneficial.

THE MACMILLAN COMMITTEE, 1929.

In spite of the favourable nature of this Report, the Labour Government was apparently influenced by the

gathering weight of criticism of our banking and monetary policy,[1] and in November, 1929, the Chancellor of the Exchequer announced the appointment of a Committee "to inquire into banking, finance and credit, paying regard to the factors, both internal and international, which govern their operations; and to make recommendations primarily for the relief of industries, and calculated to enable these agencies to promote the development of trade and commerce and the employment of labour."

Practically every important interest in the country is represented on the Committee over which Mr. H. P. MacMillan was chosen to preside. Banking and finance are represented by Mr. R. H. Brand (of Lazard Brothers), Mr. C. Lubbock (a former deputy-governor of the Bank of England), Mr. R. McKenna (Chairman of the Midland Bank) and Mr. A. A. G. Tulloch (Deputy-Chairman of the District Bank). Industry is represented by Mr. Lennox B. Lee (Chairman of the Calico Printers' Association, Ltd., and President for 1929 of the Federation of British Industries) and by Mr. J. Frater Taylor (Chairman of W. Beardmore & Co., Ltd.), while commerce has Sir Walter Raine (Deputy-Chairman of the Association of British Chambers of Commerce). Trade Unionism is represented by Mr. Ernest Bevin (General Secretary of the Transport Workers' Union), Consumers' Co-operation by Sir Thomas Allen (of the Co-operative Wholesale Society), and the left wing of the Labour Party by Mr. J. T. W. Newbold, a former Communist and member of the Independent Labour Party. The well-known economists, Professor T. E. Gregory and Mr. J. M. Keynes, will doubtless give the Committee much helpful support on the academic side, while the Treasury view is entrusted to Lord Bradbury.

[1] Mr. Philip Snowden would seem to have negatived this suggestion in a pamphlet entitled "The Bank of England and Industry" (London General Press). "The setting up of this Committee," he says, "implies no reflection whatever upon the British banking and financial institutions. Whatever improvement may be possible in their methods and constitution, the fact remains that these institutions are pre-eminent in the world for soundness and probity. British credit to-day is the best credit in the world, and the British market is the safest market for the investment of those who want a genuine investment and do not crave after speculative profits."

With such a diversified representation the Committee may not find it easy to reach agreement, and, if for no other reason than this, its Report, which will be awaited with the greatest interest, is likely to be educative rather than constructive. In any event, any suggestions which may serve to relieve the present financial and economic difficulties will be welcomed as much by bankers as by other members of the community.

The Economic Advisory Council.

Although the several committees set up since the War have undoubtedly rendered valuable service in their respective spheres, it has gradually come to be recognised that economic and monetary problems are now so intricate, and so vital in their effect on national welfare, that some permanent expert organisation is required to advise the Government on such matters. In 1928 the Liberal Party, in its Yellow Book,[1] had proposed the establishment of an Economic General Staff as a permanent Government organisation to be charged with the continuous study of all economic questions affecting the national welfare, with the compilation and co-ordination of statistical and other information and with watching important economic tendencies both at home and abroad. Actuated by similar convictions, the Melchett–Turner Conference [2] between employers and employees had urged the formation of a National Industrial Council for dealing with economic matters of prime importance, and some steps in this direction have already been taken by the parties to the Conference.

There is obviously much to be said for the institution of a permanent economic body which can keep in constant touch with the best brains in the country, maintain close contact with all broad questions of financial and economic development, and, without interference by whatever Government may be in power, ensure continuity and stability in the nation's economic policy. Germany—unfortunately for Britain, only too frequently to the fore—has for many years had an Economic Council charged with some such duties.

[1] "Britain's Industrial Future" (Benn, 1928).
[2] The so-called Industrial Peace Conference.

Its National Board for Efficiency [1]—an independent institution representative of the largest business interests in Germany and of the various scientific and technical associations—co-ordinates the work of a number of other bodies, undertakes the publication of important findings and propaganda on such matters as rationalisation, and promotes the creation of machinery to fill in gaps discovered by it in the national field of technical advice and research. Likewise the United States Department of Commerce has done a vast amount of important work in the direction of improving industrial organisation and technique.

In our own country, of course, much useful work has been done by the Board of Trade, the Department of Overseas Trade, the Committee of Civil Research, the Department of Scientific and Industrial Research, and other Departments of State. But the great defect in the system has been the lack of some co-ordinating body to take advantage of the information and activities of the various Departments and to advise the Cabinet broadly in matters of vital economic importance. The work of the Government is now so bound up with complex economic problems that it is impossible for politicians to have either the knowledge or the training necessary to deal with them effectively. And our Civil Service arrangements, with their system of watertight compartments dealing with closely related aspects of our economic life, make almost impossible the achievement of the breadth of outlook which is essential to any general solution of our national difficulties.

In the words of a recent writer, " the only Minister who can in any way be described at present as responsible to the Cabinet for measures affecting the general efficiency of British industry and commerce is the President of the Board of Trade. But if this Cabinet Minister should attempt to take anything like a synoptic view of the situation as a whole he would find himself sadly handicapped. The question of the relationships between capital and labour, and the whole complex of influences which they can bring to bear upon efficiency, rests with his colleague at the Ministry of Labour. Should he wish to improve the standard of industrial administration or of salesmanship by better dispositions for the training of future general managers and salesmen, he could

[1] Reichskuratorium für Wirtschaftlichkeit.

only take action through the medium of the Minister for Education. He cannot test the effectiveness of any factory legislation introduced except through the work of a division of the Home Office. Should he wish to consider the physical condition of those engaged in economic enterprises, and its bearing on production, he must turn to the Ministry of Health. If it is materials and progress in technical research that he wishes to take into his purview, he must rely on a department reporting direct to the Privy Council. Finally, in all that vital sphere which is concerned with the inter-relations between finance and industry, his work must be referred to the Chancellor of the Exchequer, a Minister whose department is primarily concerned with securing economy, and whose accounts are drawn in a form which places the whole emphasis upon annual savings rather than upon the far-sighted exploitation of capital resources." [1]

Moreover, although there are throughout the country numberless public and private organisations which are doing excellent work in their respective spheres, as, for example, the Federation of British Industries, the Confederation of Employers' Organisations, the Association of British Chambers of Commerce, the Trades Union Congress, and the National Institute of Industrial Psychology, there is no co-ordination of their activities sufficient to ensure that unity of purpose which a national effort demands. In view of these facts, it was not altogether surprising that steps should be taken to establish some central advisory organisation in this country.

In January, 1930, Mr. Ramsay MacDonald announced the establishment of an Economic Advisory Council, consisting of the Chancellor of the Exchequer, the Lord Privy Seal, the President of the Board of Trade, and the Minister of Agriculture and Fisheries, together with several well-known economists, bankers, business men and a permanent staff of experts,[2] under the chairmanship of the Prime Minister.

[1] "The Meaning of Rationalisation," by L. Urwick (Nisbet).

[2] Apart from the Government representatives, the Council as originally constituted included Mr. J. M. Keynes, Mr. G. D. H. Cole and Mr. R. H. Tawney, representing economic theory; Sir John Cadman, Chairman of the Anglo-Persian Oil Company, Sir Arthur Balfour, late Chairman of the Committee on Industry and Trade, Sir Josiah Stamp, Chairman of the L.M.S. Railway, and Sir Andrew Duncan, Chairman of the Central Electricity Board, representing various industrial interests; Mr. Ernest Debenham, Director of Lloyds Bank, and Sir Alfred Lewis, Director and Chief General Manager of the National Provincial Bank, as representatives of Banking (in addition to Sir Josiah Stamp and Sir Andrew Duncan,

The Council was formed as a standing body constituted to advise the Government on economic matters and to make a continuous study of developments in trade and industry. It will examine the use of national and imperial resources, advise on the effect of legislation and of fiscal policy, both at home and abroad, and report on all aspects of national, imperial and international economy which have any bearing on the prosperity of the country.

It is as yet too early to express any opinion as to the results which are likely to follow the establishment of this Council, but there can be little doubt that the formation of some such organisation has been only too long delayed. We cannot but hope that the Economic Advisory Council, with its representation from the three great groups, bankers, industrialists and politicians—each of which has in turn been blamed for the present conditions of industrial gloom—will be able to reach agreement on some line of policy and co-operation which will promote the so eagerly awaited return of the nation's erstwhile prosperity.

The problems with which the Council has to deal are of the most intricate kind. Banking and currency policy will undoubtedly account for a large part of its deliberations, although detailed investigation of this aspect of the national difficulties will necessarily be left to the MacMillan Committee. In other directions, however, the Council will find almost unlimited scope for its activities, for, although the various Ministries which have held office since the War have been responsible for a number of important measures designed to improve the general economic position, conditions have gone from bad to worse and the urgency for effective action is more pressing than ever.

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who are also Directors of the Bank of England); Mr. Ernest Bevin of the Transport and General Workers' Union, and Mr. W. M. Citrine, Secretary of the General Council of the Trades Union Congress, representing Labour; and Sir William McLintock, the well-known Chartered Accountant, Sir Daniel Hall, Director of the John Innes Horticultural Institution, Sir William Hardy, Director of the Food Investigation Department of Scientific and Industrial Research, and Mr. W. R. Blair, Director of the Co-operative Wholesale Society, representing the special interests with which they are concerned. The Permanent Staff includes Mr. H. V. Hodson, a member of the Staff of *The Economist*; Mr. A. F. Hemming, formerly assistant secretary to the Committee of Civil Research; and Mr. C. G. Clark, of the School of Social Science, Liverpool University.

Measures of the Conservative Ministries.

The Coalition and Conservative Ministries which held office after the Armistice were responsible for several far-reaching measures intended to ameliorate the nation's difficulties, and without doubt their efforts paved the way for the more spectacular efforts of the Labour Administration under Mr. Ramsay MacDonald. In particular, the Coalition Ministry was responsible for the Safeguarding of Industries scheme implemented in 1921 by the Safeguarding of Industries Act, while the later Baldwin Ministries which took office in 1923 and 1924 (before and after the first Labour Government) were responsible for plans for encouraging emigration to the Dominions; for the vast Derating Scheme, whereby it was hoped to remove a sum of between £20,000,000 and £30,000,000 per annum from the burden of overhead charges on industry, and especially agriculture; for the remission of railway passenger duty, so making available several millions for capital expenditure and increasing work on the railways; and, finally, for the furtherance of schemes of labour transference from depressed to active areas, and for the training of young labour in new and profitable trades.

The Safeguarding of Industry.

In spite of the controversy with which the question is surrounded, it seems likely that, of all the Conservative Government measures, the one which has benefited industry most is that of Safeguarding—the name applied to the system first implemented by the Conservative Government in 1921 whereby certain home industries have been protected against foreign competition by the imposition of duties on articles imported from abroad.

Safeguarding, of course, is merely a modified form of Protection, and for that reason alone one would expect to find it in the forefront of Conservative plans to alleviate industrial difficulties. But apart from the political aspect, there are strong economic grounds for the protection of (*a*) infant industries against foreign goods produced at low cost by relatively poorer paid labour, (*b*) industries whose products are of vital importance to the nation, especially

during times of war, and (*c*) rationalising home industries during the process of reconstruction. The question of the protection of rationalising industries has clearly assumed a high degree of importance in view of the realisation, discussed earlier in this book, that several British industries are far behind their foreign competitors in lay-out, equipment and marketing technique. Hence, there is now a growing feeling that the re-organisation of our basic industries is made more difficult by the fact that the British market is not protected, in contradistinction to the position abroad, where national markets are more or less sheltered by tariff walls. It is realised that, during the process of rationalisation, an industry is in a weak position from a competitive point of view, and that the temporary dislocation of production consequent on reconstruction must help foreign manufacturers to gain a strong foothold in the markets previously supplied by the rationalising industry, thus accentuating the difficulties of re-organisation and retarding recovery.

In support of this contention it is urged that, in Germany and the United States particularly, large-scale changes in industrial organisation and management have been made possible mainly by the fact that the home market has been practically guaranteed to the home producers. Hence, British industrialists feel that similar protection, even if it were only temporary, should be granted to them in order to make rationalisation possible. Such protection, it is urged, should be afforded, not by means of a general protective tariff, but by the application of the principle of safeguarding, whereby, if it could be shown that an industry was suffering from unfair competition from abroad, it would be safeguarded for a specified period, during which the changes necessary to put it on an equal footing with foreign competition could be met. As Mr. Baldwin has said, in justifying the policy,[1] "When industry is in process of rationalisation, at that time it is very like a lobster without its shell, and it needs safeguarding while it is going through the metamorphosis. The men who are discharged during that process need to find industries in which they may be equally safeguarded."

[1] Coliseum, 5th February, 1930.

Recognition of these facts enabled the Coalition Ministry, in face of a strongly Free Trade electorate, to pass the Safeguarding of Industries Act, 1921, which imposed, first, a duty of $33\frac{1}{3}$ per cent. for five years on certain foreign-produced articles, the home manufacture of which was considered to be of vital necessity to this country; and which further provided that a similar duty would be put on imported goods dumped into the country at prices below their cost of production in this country, or which, by reason of the depreciation of the foreign currency concerned, were capable of being sold in this country at prices below those at which similar goods could be profitably made in the United Kingdom. The latter provisions, which operated mainly against goods imported from Germany, expired in August, 1924, and were not re-enacted by the Labour Government.

The Chadwick Committee, 1925.

Towards the end of 1925 the Baldwin Ministry appointed a Committee, under the chairmanship of Sir Burton Chadwick, to inquire into the effect of the duties imposed under the first part of the Safeguarding of Industries Act. The Committee reported [1] that the safeguarded industries had shown considerable advance in both the quality and variety of the goods produced; that in certain of these industries the number employed had increased, and that the prices of the product had in many cases fallen. The Report stated that the safeguarding duties had permitted substantial progress to be made particularly in the following industries: scientific glassware and porcelain, mathematical instruments, fine chemicals and magnetos. It was, therefore, recommended that the duties should be continued, and to this end provision was made in the Budget of 1926 for their renewal for a further ten years.

In his election address in 1924, Mr. Baldwin had said: "We are determined to safeguard the employment and standard of living of our people, in any efficient industry in which they are imperilled by unfair foreign competition, by applying the principle of the Safeguarding of Industries Act

[1] Cmd. 2631.

or by analogous measures." Following the issue of the Report of the Chadwick Committee, effect was given to this pledge in a White Paper setting out the new policy of Safeguarding. Here it was laid down :

> 1. That industries desirous of being safeguarded must prove to the Board of Trade that there is a *prima facie* case to put before a non-political Committee established for the purpose of considering the application.
>
> 2. That in the event of such a Committee being set up, the industry applying for safeguarding must next satisfy the Committee that : (*a*) it is of substantial importance (taking into prime consideration the numbers employed therein); (*b*) it is suffering from abnormal competition resulting in foreign goods being sold here at prices below those at which the goods can be profitably produced in this country, such competition being due to depreciated currency, *and/or* subsidies, *and/or* inferior conditions of labour in the competing industry; (*c*) it is conducted efficiently in this country, and (*d*) the imposition of a duty would have no adverse effect upon employment in any other industry.

Although some fifty applications were received by the Board of Trade, duties were imposed in eight cases only, viz. lace, gas-mantles, gloves, cutlery, packing and wrapping paper, pottery, buttons and enamelled hollow-ware.

The "McKenna" Duties.

At this point mention must be made of the so-called "McKenna duties." These were imposed in 1915 on cinematograph films, clocks and watches, motor-cars, motor-cycles and tricycles, including accessories other than tyres but excluding trade vehicles, and musical instruments. They were intended primarily as a war-time measure to check the import of goods regarded mainly as luxuries, and to protect the foreign exchanges. They were continued by the Coalition Government and by the Conservative Government of 1923, since it was found that, although the duties had not been imposed with the intention of safeguarding the industries concerned, they had had the effect of so stimulating employment that their retention appeared desirable. These duties were repealed by the MacDonald Ministry in 1924, but were reimposed by Mr. Winston Churchill in 1925.

Effects of the Duties.

The evidence seems to show that both the McKenna duties and the Safeguarding duties have been very successful. In all cases employment in the industries concerned has shown a marked increase, while in many cases prices have fallen. The general effects of the duties have been to enable British industries to give more employment, to increase their output and to lower their costs of production. In this connection, Mr. H. King, a Director of the Manchester Chamber of Commerce, has said: "What we certainly do want is to have full production over which to distribute our overhead costs. In order to see an example of this one need only look at the motor trade, where cars are cheaper and better every year under Protection, because, being assured of the home market, the manufacturer can launch out, keep his plant up to date, and export his surplus at a profit." [1]

On the general effects of the duties, the Balfour Committee on Industry and Trade reported that: "In no case is the period covered long enough to admit of safe inferences as to the real effect of the duties. . . . All that can be said is that the very limited operation of the experiment of 'Safeguarding' up to the present time has not, so far as can be judged, given rise to any substantial prejudice either to the consuming public or to the using trade, while in some cases, *e.g.* laces and gloves, there is definite evidence of improved employment in the industries concerned."

The Fiscal Controversy.

In spite of this admission of the benefit of the duties by an expert and impartial body, the Labour Government has given every indication of its intention to remove the duties at the earliest possible moment. There are, however, signs of a great change-over of public opinion on the fiscal question, and even the staunchest of Free Traders are now putting to themselves and to others the question whether the time has arrived when, in the interests of industry, Britain must depart from the cherished traditions of Free Trade and

[1] *Morning Post*, 15.1.30.

adopt some degree of Protection in the hope of effecting improvement in her trade position.

Decision on this point is hedged with great difficulty, a fact only too clearly indicated by recent evidence of the measure of disagreement on the matter which exists in banking circles. On the morning of July 4th, 1930, a considerable stir was caused by the publication in the newspapers of a Manifesto on fiscal policy, bearing the signatures of some of our leading bankers, expressing disappointment at the continued growth of tariff barriers throughout the world and urging the need for immediate measures to encourage and secure Empire trade, if necessary by the imposition of tariffs on foreign goods.

A few days afterwards, the National Association of Merchants and Manufacturers issued a Free Trade counterblast to this Manifesto, signed by a number of equally prominent bankers and leading business men, pledging continued support for Free Trade and suggesting that the nation's salvation lay, not in tariff experiments, but in less governmental interference in social affairs and in a consequent reduction of the present burden of taxation.

The first Manifesto, which had the support of such banking leaders as Mr. Reginald McKenna, Sir Harry Goschen, Mr. Beaumont Pease, Mr. R. H. Tennant, Sir Guy Granet and Mr. F. C. Goodenough, occasioned widespread surprise because, only four years previously, practically the same group had issued a similar Manifesto supporting the general principles of Free Trade and urging the removal of tariff barriers throughout the world.

The last sentence explains the change of front. The hopes of the bankers expressed a few years ago have not been realised, and they have clearly reached the conclusion that Britain cannot fight single-handed for Free Trade against a world which is bent on self-sufficiency and exclusion. Furthermore, as Mr. W. W. Paine has pointed out,[1] Free Trade was undoubtedly beneficial to this country so long as the three essentials of production—brains, labour and capital—were allowed free play. But by the artificial

[1] Letter to *The Times*, 17.7.30.

protection of labour, both by legislation and by trade union restrictions, we have increased the cost of labour about 40–50 per cent. above that of our principal competitors, while we have at the same time added to industry's burdens by imposing excessive taxation to cover our enormous expenditure on social services. In brief, the argument is that we have given such artificial protection to one of the factors of production that the protection of the product of industry has become inevitable. The question of the maintenance of Free Trade has assumed a new aspect now that it is a British policy to give a bounty on foreign imports by charging British goods with unprecedented tolls for social services. "Owing to the vast burden of social charges, people in this country are no longer able really to purchase in the cheapest market, which is the fundamental advantage of theoretical Free Trade." [1]

But though it may be recognised that high labour costs account for much of our present difficulty, it is not easy to see how Protection in itself will help to remedy the position. It may be that the imposition of tariffs on food-stuffs will result in a reduction in real wages and in the real burden of social services without interfering with the nominal rates of wages or of benefits, and it is probable that this would be a less troublesome method of dealing with the matter than a direct attack on nominal wages. The prolonged industrial dispute in the Yorkshire woollen industry on the question of wage reduction is a clear indication of the difficulties of the latter course. Furthermore, the taxation of food-stuffs may be the means of increasing the national revenue and at the same time distributing more equitably the incidence of taxation.

Another fact which must be faced is that the intimate association of the bankers responsible for the first Manifesto with the problem of industrial rationalisation has probably led them to realise how difficult it is for industry effectively to re-organise in the face of unrestricted competition from overseas. On the other hand, there is no reason to suppose that the signatories to the Free Trade Manifesto could have

[1] *The Times*, "Bankers and Fiscal Policy," 10.10.1930.

overlooked this important factor. The probability is that, while they have fully realised the difficulties and hardships which the present period of transition must impose on our industry and our workpeople, they consider that the easy path of Protection is unlikely to provide a lasting solution, or replace the less attractive alternative of "the tightening of the belt, the strong pull on the rope and the hard constructive organising of work" [1] demanded by our present position.

This conflict of opinion among members of the same highly important economic group has, however, served one purpose. It has demonstrated beyond question that the problem is one of the utmost complexity deserving urgent and radical investigation in all its aspects by the Economic Advisory Council. Whatever the ultimate decision on the matter, the Government especially cannot fail to take cognisance of the change which has come over such an important group in the City, particularly as the Manifesto has been followed by equally strong demands for a revision of our tariff policy from the representatives of the Empire overseas gathered in October, 1930, at the London Imperial Conference, and also from representative domestic organisations, such as the Federation of British Industries,[2] the Association of British Chambers of Commerce [3] and the National Industrial Council, formed by Sir William Morris and his associates.

[1] *Economist*, 4.10.30.

[2] In October, 1930, it was announced that a referendum to industrialists by the Federation had revealed that 95·5 per cent. of its members were in favour of tariff restrictions on foreign goods.

[3] In its report on unemployment and its causes, with suggested remedies, submitted to the Government in 1930, the Executive Council of the Association stated that many Chambers urged the necessity for an extension of effective safeguarding to make the home market secure; that it was believed that the retention of the home market would enable our manufacturers to work more nearly to full capacity, and that this would so decrease costs of production that the ability to compete for export trade in many industries would be greatly increased.

The Council recognised that there is force in the argument that world trade would be greater if there were freedom from tariff interference, but they realised that this had proved an ideal impossible of present accomplishment. Hence they believed that in existing circumstances, when almost all nations have high protective duties, and when Great Britain is the only large free market in the world, safeguarding is essential.

GOVERNMENT EFFORTS TO IMPROVE OUR TRADE POSITION.

Whilst the Ministries which have held office in this country since the Armistice have found it impossible to institute any radical departure from the essential basis of Free Trade, they have nevertheless done excellent work in an endeavour to foster the country's overseas trade; as, for example, by implementing various export credit schemes, by endeavouring to strengthen the commercial diplomatic service, and by despatching economic missions to various overseas countries.

In regard to the latter, Mr. J. H. Thomas, in his notable Manchester speech, already referred to, said that Diplomatic Commissions with the prime object of opening up new markets and strengthening the existing outlets for British products had been sent to certain countries,[1] whilst others were in process of arrangement.[2] He said that the Government intended to revive commercial diplomatic posts in Colombia, Persia, Switzerland, Brazil and the Argentine, to create new posts in Finland and to strengthen existing commercial diplomatic representation in Egypt, China, Canada, South Africa, East Africa and the West Indies.

The Department of Overseas Trade has also done valuable work, particularly in the compilation of reliable reports on the state of trade in various overseas countries. To this fact, the Balfour Committee, after examination of a great number of witnesses from practically every important branch of trade, testified in its Final Report as follows: "On the evidence before us we have come to the conclusion that the work performed by the Department of Overseas Trade has a great and recognised value to British trade and industry, and we note with interest that the chief competing foreign countries are devoting much money and energy to building up corresponding organisations on the same model in order to foster their export trade." The Committee expressed itself strongly opposed to any steps which were

[1] Notably the Commission magnificently led by Lord D'Abernon to South America.

[2] In September, 1930, an important Economic Mission left for the Far East, to investigate the possibilities of increasing British trade in China and Japan.

likely to impair or curtail the usefulness of the Department's activities. On the contrary, it made no secret of its desire to see the services—especially in regard to the dissemination of commercial intelligence—further developed and much more widely utilised by commercial and industrial firms in this country.[1]

Export Credits Insurance.

More tangible results have arisen from the various export credit schemes implemented by the Government since 1918. One result of the collapse of credit and the failure of confidence which followed the Great War was to place serious obstacles in the way of the resumption of trade with many countries, mainly because neither merchants nor bankers were prepared to face the extraordinary credit risks involved. It became apparent that the position was likely to be especially grave in the case of our own country, so essentially dependent on a large stream of exports, and it was recognised that the revival of British overseas trade in several directions was possible only if the efforts of private traders were reinforced by State action.

Exhaustive inquiry among trading interests on this side revealed the fact that there was a considerable amount of business offering which exporters were unable to undertake because (*a*) they were unwilling to shoulder the exceptional risks involved, as in the case of a country where internal economic conditions were disturbed or uncertain; or (*b*) they were unable to finance the business owing to their inability to discount the relative bills with a bank; or (*c*) they were both unwilling to face the risk and unable to obtain the necessary financial accommodation. The first of these difficulties could, of course, be covered by credit insurance, but this method is not even yet widely known or applied, and, in some cases, the premiums are higher than

[1] For the modest subscription of 60*s*. per annum a trader can receive all the reports published by the Department during the year. Some forty publications are issued on the average during this period. In the first few weeks of 1930, the business community was in this way offered access to up-to-date and authoritative accounts of the relevant factors affecting current commercial developments in regions so wide apart as Argentina, Hungary, East Africa, Brazil, the Union of South Africa and Poland.

exporters are prepared to pay. Furthermore, there is much business lying in a kind of " no-man's land between what a commercial company would insure and the risk that is uninsurable."

In view of these facts, the Department of Overseas Trade soon after the Armistice sought to formulate a scheme which would relieve exporters of at least part of the risks, and, at the same time, enable them to get their bills discounted by the banks at a reasonable rate.

Government Export Credits Schemes.

The first step was the passing of the Overseas Trade (Credit and Insurance) Act, 1920, by which the Department of Overseas Trade was authorised to make advances to traders up to a total of £26 million in respect of exports to certain countries of Central Europe. For various reasons the scheme proved a failure, and such heavy losses were sustained by the Government that in 1921 it was closed down and replaced by a scheme of *credit guarantees*. Under this plan, which was intended to be self-supporting, the Government undertook to guarantee by its indorsement bills of exchange drawn by British exporters against shipments to certain countries, up to a specified percentage of their value, with the object of enabling the exporters concerned to discount the bills with their bankers and thus turn over their capital without undue delay.

This second scheme proved little more successful than its predecessor, and the Government was again involved in a slight loss. Accordingly, the whole arrangements were reviewed by a Committee set up in 1925 by the Department of Overseas Trade, and, as a result, the present Export Credits Scheme was formulated. This scheme has four essential features:

(1) In return for a premium paid by the exporter, the Export Credits Guarantee Department is authorised, until 31st March, 1935,[1] to guarantee, on behalf of the

[1] Under the original scheme the date was fixed as 8th September, 1931, but this was extended to 31st March, 1935, by the Overseas Trade Act, 1930.

Government, up to 75 per cent. of the face value of accepted sterling bills of exchange drawn in connection with the export of British goods, the guarantees to remain in force until not later than 31st March, 1940.

(2) The guarantees apply only to goods which are wholly or partly produced in the United Kingdom, since the main object of the scheme is to foster employment in this country.

(3) The guarantees are unconditional and cover all risks, while payment up to the limit stipulated is made immediately on the default of the foreign importer.

(4) Guarantees may be given in respect of all the markets of the world except Russia, and, so far as textiles are concerned, except India and the Far East.

Discussion between the Department, banks and trade interests resulted, in November, 1928, in the introduction of a *floating* contract (known as Contract B), the essentials of which are that the Department agrees with the exporter a schedule of names of foreign importers whom the exporter and the Department believe to be reasonably sound, and the amounts which shall be outstanding against those importers at any one time during a period not exceeding six months. The exporter is then covered for all goods shipped to these purchasers during the six months, and unnecessary formalities are eliminated. At the beginning of the buying season, the exporter may cover the whole of his deliveries for many months ahead in the certainty that, to the extent of the Department Guarantee, he is protected against the risk of loss through bad debts. At the same time he is afforded facilities for obtaining advances from his bankers, and knows with certainty that the advances can be liquidated at their due dates.

Since the premiums charged are fixed on an economic basis, the latest scheme has proved far more successful than its predecessors, and an important service has thus been placed at the disposal of the exporting community.[1] From

[1] Figures issued by the Treasury in May, 1930, showed that the guarantees given under the Trade Facilities Act up to the completion of the scheme on March 31st, 1927, totalled £72,253,767, and the net losses totalled approximately £680,000; at the same time, it was further revealed

time to time, representatives of the Export Credits Department visit all the important trading centres in the country with the object of meeting exporters and bank managers and of explaining to them how the facilities may be utilised.

In 1928 the Estimates Committee of the House of Commons reported that, after a searching investigation, they had decided that the facilities offered by the Department were of great practical advantage to exporters, and they recommended that an expert investigation should be conducted into the administration of the scheme. The inquiry was undertaken by a committee consisting of Sir Otto Niemeyer (Chairman), Colonel Sidney Peel and Sir Willian Plender. In their Report, issued in December, 1929, they recommended that the scheme should be extended for a further period of three years from September, 1931; that commercial accounts should be issued for the period from 1st July, 1926, to 31st March, 1928, and yearly thereafter (already given effect to), and that an executive committee should be appointed with powers analogous to those of a board of directors.

Credit Insurance by Private Organisations.

The facilities thus provided by the Department of Overseas Trade have for some years been afforded by private organisations known as *Credit Insurance Companies* and formed under influential auspices, in particular the Trade Indemnity Co. (affiliated to the British Trade Corporation) and the General Trading and Finance Co., Ltd. These are open to give undertakings, in the nature of guarantees, whereby they hold themselves indefinitely responsible, in return for a premium, for any loss up to a specified limit which bankers

that the loans repaid during the eight years ended 31st March, 1929, amounted to £5,278,535, and during the year ended 31st March, 1930, to £2,365,049, which aggregated £7,643,584. Thus the outstanding Exchequer liability under the guarantee was £64,610,183. From July, 1926, up to the end of March, 1930, the Export Credits Guarantee Department had entered into contracts guaranteeing the payment of Bills of Exchange for a total amount of £12,763,638, on which its maximum liability was £8,062,643. Losses written off to that date amounted to £5,553, in addition to which there was outstanding a sum of £93,624, representing the difference between payments under guarantees and recoveries from defaulters.

or traders might sustain in connection with the export of goods.

The insurance is effected under a tripartite contract between the company, the bank concerned and the trader. The latter is required to take out a *Bill of Exchange Credit Policy*, on the strength of which the company provides the banker with what is known as a *Banker's Bond*, constituting an undertaking by the company to indemnify the bank up to an agreed limit, and within three months from the date of the default by the foreign importer, in respect of the amount of any bill dishonoured, together with the bank's charges and loss of interest, if any.

The facilities mentioned were offered by these companies before the Government entered the export credits field, and, though they have doubtless received much additional publicity through the inauguration of the Government scheme, there is much to be said for the view taken by the companies that the business of trade credits is one which demands very high business ability and long experience, and that it is much more suited for private enterprise than for Government control. In support of this contention, Mr. C. E. Heath,[1] Chairman of the Trade Indemnity Company, has pointed out that, although the business of his company during 1929 was four times as much as that conducted by the Government, yet the former had been conducted at a profit, whereas the Government scheme had cost the Treasury £70,000 in 1928 and £90,000 in 1929, or, since the scheme started, well over a million sterling. As the Government scheme was originally inaugurated as an experiment, it certainly does not appear desirable that it should continue to be the subject of a State subsidy, and it would seem reasonable that the Government should gradually bring to a close a form of business which is being done more cheaply and quite as effectively by private enterprise.

Although in Europe there are now five Governments which aim at developing the export trade by granting assistance for the application of credit insurance, the British Government alone works independently and in competition with

[1] At the Company's Annual General Meeting, 11.3.30.

private interests, and, as has been pointed out by Mr. H. S. Spain,[1] this competition is unfair alike to the taxpayer who has to bear the brunt of the loss incurred and to the private credit insurance companies. Economically, there is everything to be said for Mr. Spain's suggestion that the Government should confine itself to the insurance of the so-called *catastrophic risks* of trade which the private companies cannot be expected to bear—those arising from war, revolution, earthquake and other natural calamities, and from State action which interferes with the debtor's capacity to meet his obligations. If the private companies were relieved of such risks, it is likely that their operations could be beneficially extended and that the premiums charged by them could be materially reduced.

The Overseas Trade Development Council.

The most recent contribution of the Government to the cause of reviving the export trade was the creation (announced in April, 1930) of the *Overseas Trade Development Council* to function under the auspices of the Department of Overseas Trade, which was set up in 1917, under the joint control of the Foreign Office and the Board of Trade, to encourage the promotion and development of the nation's overseas trade.

The new organisation, under the Chairmanship of the Secretary of the Department of Overseas Trade, comprises members of the Civil Service and well-known representatives of commerce—Sir Gilbert Vyle, Mr. Hugh Lewis, Mr. L. W. Matters and Mr. D. A. Horner. In addition, the Council will have a panel of leading business men available for consultation, more especially when particular trades, industries or markets are being considered. So far this panel includes, among others, Sir Arthur Balfour, Sir Ernest Jardine, Sir W. T. Larke and Mr. Kenneth Lee. The Council is intended to work in close co-operation with those members of the Government responsible for dealing with the

[1] In a paper on "Export Credit Insurance" at the International Credit Conference, Berlin, June, 1930.

question of unemployment, and there is good reason to hope that its establishment will lead to some really sound constructive policy in the furtherance of the nation's export trade.

Speaking of this development in April, 1930,[1] Mr. G. M. Gillet, the Overseas Trade Minister, dealt exhaustively with the degree to which the British export trade had fallen off in recent years,[2] and, in discussing the possibility of improving it, particularly with the Empire, he stressed the appreciable fall in British exports to many important countries in 1928 as compared with 1913, in particular to Brazil, Australia and the Argentine. Referring to the appointment of the Overseas Trade Development Council, Mr. Gillet stated that he wanted, working with him, day in and day out, a small and special staff who would help him in investigating the export trade position as a whole, as well as by markets and by trades. The Council would examine intricate problems of export trade, study present and potential markets, con-

[1] Annual Meeting of the Association of British Chambers of Commerce, 10.4.30.

[2] In the course of his remarks, Mr. Gillet calculated, at the prices ruling during 1924, our exports of goods wholly or mainly manufactured in 1913 would be £788 million; in 1924, £619 million and in 1929, £676 million. On that computation we were in 1929 over £100 million behind 1913.

During the year 1929 there were twelve countries in the world each taking over £20 million of United Kingdom exports. Of these twelve, six were Empire countries, and together they imported over £257 million of our exports, as against £185 million taken by the six foreign countries.

In 1929 the decline in our trade to the Empire, as compared with 1928, was due to the fact that India took nearly £6 million less. On the other hand, we exported £1 million more to the Dominions and £1½ million more to the Colonies.

As to competition in Empire markets, Mr. Gillet said that, although Canadian total imports had increased by over £100 million from 1913 to 1927, the United Kingdom had secured only some £11 million of this, as against £55 million secured by the United States of America. Similarly, Australia had increased her trade by £86 million, of which the United Kingdom had secured some £27 million as against £31 million which went to the United States.

In India, the United Kingdom and the United States each had secured approximately £12 million of the £69 million increase. But in 1913 India took £83 million from the United Kingdom and only £3 million from the United States of America.

In the case of New Zealand, her imports had more than doubled, and of this increase the United Kingdom supplied some £8 million and the United States £6 million. But here, again, in 1913 the United Kingdom and the United States of America figures were £13 million and £2 million respectively. In South Africa the increase of imports amounted to some £31 million; the United Kingdom securing some £9 million and the United States of America £8 million.

stantly review the volume and trend of trade, investigate the reasons for decline in exports (both as a whole and by trade and markets), and ascertain possible remedies with the object of bringing about a profitable expansion of British trade.

The Burden of Taxation.

A highly important problem which has engaged the attention of the Government for some time past, and which is likely to be investigated by the Economic Advisory Council, is that of the effect on the economic life of the nation of the present crushing burden of taxation. As long ago as 1918, the Colwyn Committee was appointed to consider the question, and its Report,[1] though inconclusive on some of the main issues, threw much light on certain vital aspects of the matter.

Since the appearance of this Report, Government expenditure has continuously increased, and the additions made to both local and national taxes have led to a growing feeling that the nation's savings are being curtailed and her resources depleted by the steadily rising exactions for State purposes. The additions to direct taxation made by Mr. Philip Snowden's 1930 Budget were as fuel to the already raging fire of the controversy. Unfortunately, however, political aspects so much intrude into the question that it is difficult to formulate a true economic conception of the position.

Opponents of the Government naturally regard the new impositions as the fruit of Socialist determination to make capital "foot the bill" for social improvement and development, and contend that its result is merely to support the thriftless and irresponsible at the cost of the thrifty; to concentrate the tax burden on the few to the relief of the many; to exploit the few in order to provide for the many more doles and other amenities comprised in the all-embracing, but not always accurate, term "social services"; to encourage financial irresponsibility in the masses of electors and, therefore, that it is economically harmful because it is ultimately self-destructive.

But outside the political camps there is a highly influential

[1] Cmd. 2800.

body of opinion, including most of our leading industrialists, our foremost bankers and several eminent economists, which views with grave concern the effects on industrial growth of the rising tide of taxation. Of particular interest in view of its source is the plea for steady and dispassionate thinking on this problem made by Mr. W. A. Appleton.[1] Expressing the opinion "that in every department of State which can camouflage its ambitions by the term 'social service,' spending appears to be a virtue to be encouraged," Mr. Appleton continues: "Each day's experience demonstrates the accuracy of the conclusion that taxation, such as is imposed on Great Britain, reacts to the prejudice of industry and employment, while the increased taxation adumbrated in various political proposals must force existing strains to breaking point. Unpleasant as the word economy is, it must be practised if financial catastrophe and deplorable destitution are to be avoided. . . . Taxation has its recognised uses, and amongst these may be wisely administered redistributions of wealth. When taxation extinguishes capital, limits industrial production, disheartens enterprise, and exploits credit to the point of collapse, it is time, particularly in the interests of the industrial producer, to call a halt, and to make the call with the peremptoriness of the drill sergeant."

It is, of course, common ground among tax theorists that the funds required by the State should be taken as far as possible in ways that interfere to the least possible extent with the productive use of wealth; that taxes should fall not upon capital, savings and productive enterprise, but as far as possible on income. The increase of the income tax and of the estate duties is regarded as markedly detrimental not only to industry, but also to the community at large: to industry because it tends to discourage investment in industrial undertakings, and because the taxation of profits allocated by companies to their reserves involves making a direct inroad into capital put aside for future development; to the community because the constantly increasing inroads

[1] Secretary to the General Federation of Trades Unions, and British correspondent to the International Federation of Trades Unions. In Lloyds Bank *Monthly Review*, August, 1930.

into capital discourage savings, and create a still larger class of idle poor because they prevent that accumulation of capital which alone will provide further employment.

Taxation and National Savings.

On the question of the curtailment of national savings, Sir Harry Goschen [1] has made some illuminating comments. He has rightly pointed out that we in this country appear to be inclined to dissipate our potential capital in unprofitable directions, and that a continuance of this policy can only result in encroachment on our national wealth. He emphasises, too, the oft-forgotten fact that spending and saving are complementary, and that, unless Government expenditure is curtailed, our national savings are unlikely to prove adequate for the continually increasing demands of industry.

The banks, as we have seen, explain their inability to grant further financial assistance to industry by the fact that they have already advanced to the limit of their resources. These resources consist mainly of customers' deposits, and the extent of customers' deposits depends very largely on the community's capacity to save. Hence, if national savings are being exhausted by excessive taxation, the ability of the banks to increase their credit facilities is likewise being restricted.

Whilst there is evidence that our national savings are still of a high magnitude,[2] there is also ground for the contention that the country is not saving nearly enough to meet the vast

[1] National Provincial Bank Annual General Meeting, January, 1930.

[2] "Such estimates as were possible before the War indicated that at that time the aggregate savings of this country amounted to a figure of the order of £1,000,000 a day. Any estimate at the present time must be largely a guess. If the aggregate income has increased, not only with the increase of population but in proportion to the increase of prices, then the national savings, if in the same proportion to income as before the War, will be well over £1½ million daily. But we have no knowledge of whether savings are related to income in approximately the same manner as before the War. In the attempts made in connection with the first Census of Production to estimate the aggregate of industrial capital the average figure obtained was about £200 per head of persons engaged in manufacture, including mining. It would seem, therefore, that there is reason to believe our national savings should be, theoretically, sufficient, so far as the necessary increase of our capital is concerned, to employ the present annual increase of our population."—"Memorandum on Unemployment and Stabilisation of Industry," issued by the Industrial Institute, 1925.

commitments of the Central Government. Figures in support of this contention have been supplied by the well-known authority, Sir Robert Kindersley,[1] who has made two illuminating comments thereon: first, that if the country saved more, unemployment would be lessened because the savings could be used for productive purposes and for the creation of earning assets, in connection with which labour would be employed; secondly, that the reduction in the nation's savings since the War had caused Britain to lose her old predominance as the world's leading financier in favour of the United States, which was now easily the biggest lender abroad. Naturally this fact means that the United States is making far greater headway than we are in foreign markets, and particularly in Central and South America, because the country which lends the most tends to get the higher proportion of orders from the borrower. The flow of our capital overseas is vitally connected with employment and prosperity in our chief exporting industries. It is well known that since the Great War our investments overseas have been below their pre-War level, whereas those of the United States have increased by leaps and bounds. To the extent that foreign lending by *any* country must assist the general economic recovery of the world and so serve to stimulate our own trade and manufactures, the position implied by America's financial leadership is not to be deplored. The real danger lies in the fact that the foreign capital may be, and without doubt actually is being, used to supplant our interest in foreign undertakings which have been built up and developed by our enterprise and resources, and on which we have relied for the purchase of a large part of our products.

Industry and the Burden of Taxation.

The foregoing views are confirmed by both the majority and minority Reports of the Colwyn Committee and, though the Reports make clear the opinion of the Committee that the extent of the effect of taxation on national savings

[1] Speech on the National Savings Movement at the Mansion House, 8.5.28.

depends on the way in which the money is spent, they express the conclusion that the inroads made by taxation into savings tend to handicap speculation and pioneer enterprise, and to increase the resources seeking investment in safe securities.

The problem as to how far heavy taxation in this country is restricting industrial enterprise is, without doubt, one which calls for urgent attention. Periods of depression, more than any other times in a nation's history, call for every encouragement of initiative and courage. "Never has it been more necessary to tempt the venturesome man to embark upon extensions of existing enterprises and upon new trades. Yet heavy income-tax and sur-tax deter him; he says the game is not worth the candle. 'If I win, the State takes nearly half by life and death taxation; if I lose and ruin my health, the State will not replace any part of my loss. Not good enough.'

"But it goes further than that. The opening up of fresh trades, markets, processes, discoveries and inventions of a speculative nature are discouraged by the high income-tax and sur-tax. Not only do the capitalist and the working man suffer. Humanity itself suffers. Civilisation benefits by inventions, discoveries and new industries, and the lure towards them is high profits. To remove that lure renders an ill-service to humanity. It removes the incentive which brings about an advance towards better conditions of life, conditions rendered possible by the discoveries, inventions, and new services that the lure of profit has stimulated." [1]

Discussing the matter recently and comparing figures of the weight of taxation in certain leading countries, the *Westminster Bank Review* [2] suggested that "there are four disquieting factors in the present tax situation in this country, viz. (1) that the burden of taxation is significantly heavier in Great Britain than in the case of her most dangerous trade competitors; (2) that the largest individual item in the annual bill of costs is the service of a War-swollen National Debt, which is a much greater charge on the resources of this

[1] "Income-Tax and Costs of Production," by A. M. Samuel, M.P. (*Times Trade and Engineering Supplement*), 20.9.30.

[2] "Taxation in Great Britain and Abroad," August, 1930.

than of other countries, mainly because the expedients adopted in certain States for easing the effective burden have not been permissible in Great Britain's case; (3) that the real weight of the Debt has been increasing rather than decreasing of late years; and (4) that a very large share of the total annual tax revenue is contributed by a minority of the income-receiving population of the country."

The *Review* comments: " The cumulative effect of these conditions is, necessarily, the imposition of a grave handicap on British trade and industry in an epoch of fierce international competition. . . . Yet at no time has it been more desirable to offer high inducement to enterprise in British industry. Further, it is from the upper levels of a man's income that his savings are made. The present system of taxation is drawing heavily on the reservoir of savings from which new industrial capital must eventually be derived. To this extent it is true to say that the State is living to-day, in a significant degree, on its capital."

The position as it is viewed by business leaders was recently thus described by Lord Melchett: [1]

" If you wish to restore the agricultural and industrial condition of this country to a real state of prosperity, one of the first necessities must be reduction of the burden of direct taxation. . . . When out of every pound you put by in your reserve fund from your profits year by year for the building up of your business, 4*s*. 6*d*. is taken by the State—often for by no means so useful a purpose—how can anyone say that taxation does not impair the strength of industry?

" After all, there is only one amount of profit to be divided, especially in concerns of a growing character which from time to time have to raise fresh capital to extend their business. If the shareholder demands a higher return on his capital, you have to weaken the reserve. A low dividend renders the obtaining of capital more difficult and more expensive. A weaker reserve renders the future fighting force and development of your industry in comparison with the industries of other countries of the world very much less.

" Nor is it really true to say that the imposition of high taxation on the individual does not affect the prosperity of the industry. It is an old and trite saying, but no less true, that money fructifies better in the pockets of the citizens than in the hands of the

[1] 29.4.30, as Chairman of the Annual General Meeting of Imperial Chemical Industries, Ltd.

Treasury. Quite apart from the moral and psychological effect of a continuously depressing nature on those who work and labour day by day at the big and heavy responsibility of industry, to see the reward of their work in the shape of salary or commission continually curtailed, you can also cause by taxation a dissipation of wealth which may have a very far-reaching and disastrous effect on the industrial community."

Possibly the arguments against the burden of taxation have never been more convincingly stated than they were in a letter to *The Times* [1] by a Lancashire manufacturer, in the course of which he states:

"I am not a politician or a financier. I have been at the producing end all my life and am now head of what would be called a progressive manufacturing concern. It is a private limited company, owned practically by myself and my family. We have had almost no unemployment; on the contrary, our workpeople have increased in numbers every year. . . .

"When the recent Budget was explained I asked my accountants to prepare for me a statement how it would affect us, and this shows that, whereas before the Budget I had to look forward to an estate duty of £196,000, under the new conditions on the same estate that tax will now be £56,000 more, or £252,000. But that is not all. They point out that, if our business continues its present progress for the next five years and makes an additional average annual profit of £30,000, my estate would at the end of that time and on the same basis of valuation be involved in additional estate duty of £148,000, even though the total increased profit, after income-tax, had only left me £116,500. Which means that, by forging ahead, adding new plant, and giving large additional employment, my estate would in the event of my death at the end of five years be the poorer by £31,750, apart from the sums I should have to pay in sur-tax. It will take a very heroic spirit to continue pioneering under these conditions!

"Is there not a great fallacy at the back of it all? . . . All the surplus capital I ever made has gone into the development of my business. I have no money elsewhere. Yet I have to look forward to my estate paying out some £200,000 to £400,000 in cash to the Government in the not remote future. Where can this come from but out of the working sinews of the business? It means that, instead of my allowing things to go ahead as they have done, I must now 'reverse' and withdraw from the business much more than the estate duty, as sur-tax has also to be paid on the amounts withdrawn to meet the tax-collector.

"Is there not here a key that may explain much of our unemployment? My own case I know is typical of many concerns in

[1] 29th April, 1930.

Lancashire and elsewhere where new equipment and new enterprise are made impossible because of the estate duties. Either the reserves have to be raided for that purpose and the business left impoverished, or, where there are no reserves, the family have to sell to the public and thus change the whole character and personal stimulus that had made the business. Statesmen and the public alike ought to realise that industry cannot develop apart from capital, and that, unless there are great reserves of capital available for rapid-changing world demands, development stops and unemployment begins. It is new ideas with capital behind them that can alone create conditions that will attract labour. If a business is drained clean of its reserves it simply stands still or goes to the wall.

"The present Budget estimates collecting over £80,000,000 this year from estate duties alone. What proportion of this and of the vast millions that have been collected under the same head in the past represents money taken from business reserves and active business channels it is difficult to compute. But it must be evident that many, many millions of that money would otherwise to-day be active in industry and employing many thousands of people. Instead it has been divorced from its source, where it was active and creative, and diverted to purposes that have no creative or productive side, with consequent stagnation, unemployment and doles. Is it not really a blind and vicious circle—to drag vast sums of money from their natural places of use and employment, making people idle, and then needing more and more to give them because they are idle?"

Investigation by the Federation of British Industries.

In its Annual Survey of the trade position, issued early in 1930, the Federation of British Industries reported that it had had the matter of the effect of taxation on industry specially investigated.

The investigation, it is stated, affords conclusive evidence that the limits of industry's taxable capacity have been reached, and that the sums at present being expended by the State on unproductive purposes cannot be borne by the present volume of production without injury to the national economy.

Viewing with grave concern the additional burden imposed by the 1930 Budget, the Federation points out that British industry has been struggling for nearly a decade to recover its position in the markets of the world, but has been handicapped by a load of taxation which exceeds that of any other

important commercial country. Moreover, the additional taxation comes at a time when many of our competitors are contemplating decreases in taxation. It also follows a year in which Great Britain's position as an international centre has been assailed and her commercial and industrial activities hampered by abnormally high credit rates and disturbed commodity markets, culminating in an international financial disaster of a magnitude unparalleled in the past fifty years.

The following figures, compiled by the Federation's experts, are quoted as an indication of the high proportion which industry contributes to the total receipts from income tax:

	Per cent. of total.
Real Property	13·0
Farming Profits	·5
Securities	17·8
Business:—	
(a) Mining, Manufacturing and Productive	22·3
(b) Distribution, Transport and Communication	17·3
(c) Finance, Professions and other business	6·5
Salaries, etc.	22·6
	100·0

Commenting on the figures, the Report points out that approximately one-fifth of the total net yield from income tax is derived directly from mining, manufacturing and productive industries, to which should be added a substantial proportion of the sums under the heading of "Real Property" (Schedule A), salaries, and under the business headings (b) and (c), since the sums contributed by these items in a large measure depend upon the prosperity of industry. The circumstances which have led to the present disquieting state of affairs are, in the opinion of the Federation, a direct consequence of the policy of successive Chancellors of the Exchequer, by whom no account appears to have been taken during recent years of the cumulative effect of the burden of taxation on a decade of industrial depression accompanied by a falling price level and credit stringency. The Federation argues that, so long as trade is continuing to make progress and the national income increasing, an annual increment accrues to our national

wealth which can, if it be so desired, be taken from industry by taxation and devoted to social purposes. Exactly the contrary situation exists at the moment. The nation is not making headway, and cannot therefore afford luxuries.

Taxation of Profits Allocated to Reserves.

The point referred to above, that industry is being weakened by the heavy taxation of its reserved profits, is another matter which is now regarded as being of first-rate economic importance to the community. As Mr. J. M. Keynes argued before the Colwyn Committee, one of the great defects of the income tax as imposed in this country is that it does not discriminate between the *uses* of income on which it falls, and there appears to be every reason for some abatement in the rate of tax on profits which are " ploughed back " into industry, *i.e.* which are reserved for future employment on the expansion and improvement of a business.

" One of the greatest essentials to prosperity in business, whatever business it may be, is the creation of reserves, and it is easy to understand that, when as much as 22½ per cent. of the profits earned by a business which is a limited company, and possibly even a larger proportion in the case of a business individually owned, has to be paid away in taxation as a first charge, there is little opportunity left, especially in these days, to build up reserves. . . .

" Reserves are the backbone of every business, to meet contingencies, to keep the business up to date, and to provide the power to expand. It is the putting back into a business of as large a proportion of the profits as possible that ensures success; it is the paying out of too large a proportion of profits that weakens it. Reserves are infinitely preferable to borrowed capital, and the most successful businesses in the country have been built up through the creation of reserves. It is certain that high taxation leads to the export of capital. It also increases unemployment, and in due course defeats its own object by reducing the taxable resources of the country." [1]

Inquiry by the Association of British Chambers of Commerce.

The strength of opinion on this question may be further indicated by reference to a questionnaire on the subject of

[1] Mr. F. C. Goodenough, in an address at the dinner given by the British Bankers' Association to the Chancellor of the Exchequer, 14.5.30.

national taxation issued in 1930 by the Association of British Chambers of Commerce to its constituent chambers. The result showed that all the Chambers were unanimous in their opinion that our national expenditure is excessive and more than the country can afford; that the burden of taxation was having specially serious effects in view of the prevailing depression and the fall in commodity prices; that this burden was markedly detrimental to our export trade, in that it left less money available for business purposes, increased the cost of borrowing and the cost of production generally, and restricted enterprise.

These views were presented to the Government by the Executive Council of the Association in the form of a Memorial, in which the following comparative figures of the rate of taxation per head in this country and in certain leading competing countries were quoted in support of the general view:

U.S.A. (1929)	£5 13s. 0d.	(very roughly)
Canada (1928)	£7 15s. 0d.	,, ,,
Germany (1929)	£7 9s. 0d.	,, ,,
U.K. (1929)	£15 1s. 5d.	(estimated)

In the light of these figures, and the views expressed by its members, the Association gave its opinion that urgent and adequate action should be taken by the Government towards the extension of safeguarding and the adjustment of wages paid in the sheltered occupations. At the same time the Council urged the need for strict economy in expenditure, both national and local, and a discontinuance of all new legislation imposing new regulations and laws which add to the cost of production. Moreover, the Memorialists stated that they were strongly of the opinion that expenditure on emergency schemes which are non-productive, while it may afford temporary relief, will, on balance, do more harm than good, by adding to the burdens on industry and diverting capital from industrial development.

Difficulties of the Government.

The foregoing statements indicate conclusively that there is in the country at the present time an increasing fear,

inspired not merely by the instinct of self-preservation in the rich, but supported also by sound reasoning and an impartial consideration of the facts, that the production of national wealth is being seriously limited by excessive taxation.

But though the evil may be recognised, the cure is not easy to find. It may be true that there is urgent need for a reduction in the total amount of taxation, and for a readjustment of the tax system so as to relieve productive forces as much as is possible. But, as Mr. Snowden [1] has observed, the Chancellor of the Exchequer is each year faced with the problem of raising a considerable number of millions, and it is not so much a matter of how best this can be done as how it can be done at all. The money must be found somewhere; and the very magnitude of the tax demand makes it impossible to observe sound canons. So long as the principle is accepted that the nation must pay its way, and that the expenditure to which the country is committed each year shall be covered by revenue, then the Government must adopt whatever plans seem best in the circumstances and seem likely to be least onerous to the people as a whole.

On this ground there seems to be some justification for the heavier taxation of very high incomes, and for the recent increase in the death duties on large estates. But it is not so easy to decide on the merits or demerits of the increase in the rate of direct tax on moderate incomes. No tax can be regarded as economically justified if it results in a decrease in the amount saved by the thrifty for investment in industry or if it results in a serious depletion of industrial reserves for capital development.

The Burden of Social Services.

The solution, therefore, must be found on the spending side of the National Balance Sheet. If industry is to be relieved of some part of the present burden of taxation so that it may recuperate and adjust itself as easily and as speedily as possible to the new conditions, then something must be done to reduce the expenditure for which industry

[1] At the British Bankers' Association Dinner, 1930.

Government, as witness the following statement from a Report issued in March, 1930, by a special Committee of the General Federation of Trade Unions: "It is foolish to expect that social improvements for many millions can continuously be paid for by exactions from the wealth of a few thousands. However desirable it may be to secure a fairer distribution of wealth, it is fatal to national prosperity to eat up that capital which is necessary to finance present and future production. . . . It is important that the workers of Britain should realise where the burden of taxation ultimately falls and to what extent it prevents the accumulation of that capital which is necessary to maintain and expand that industry by which they live."

The Tragedy of the Dole.

Of the various social benefit services which are now existent in this country none has caused so much controversy as the Unemployment Insurance Scheme whereunder thousands of able-bodied unemployed workers are supported on the "dole" at an enormous annual cost to the community. The basis of the scheme is, of course, that worker, employer and the State should contribute to a fund out of which a worker may receive support if he loses his employment through no fault of his own, as a result, for example, of generally depressed economic conditions. Without doubt the principle is sound. It is one with which few would quarrel, but, unfortunately, in practice it has been subject to the most widespread abuse. Many unemployed workers prefer nowadays to remain in idleness rather than make an effort to obtain work, or rather than accept work which is not quite what they want. Furthermore, there is little doubt that the existing system is having a most distressingly adverse effect on the morale of the working population, creating a mass of inefficient and sadly degenerate people who prefer their easily won leisure to the sterner calls of hard work. Incidentally, there are circumstances in which a worker having paid eight personal contributions under the national unemployed insurance scheme during the last two years, or thirty during the course of his working career, may

live on the dole until he attains the age of sixty-five, when he qualifies for an old age pension.

In the result we are faced with the position that two out of twelve millions of our workpeople are maintained by so-called insurance, apart from the further three-quarters of a million already supported by the Poor Law, and the real value of the dole is such as to make it compete seriously with the wages that are to be earned by hard work in occupations such as agriculture. Moreover, the system of maintenance engenders a degree of carelessness and inefficiency in the workers which makes for frequent changes of job, and it retains in the labour market a large number whose efficiency is subnormal—who can never hope to retain employment at high rates of wages.

"Thanks largely to the increased rates of unemployment benefit and to the relaxation of the conditions for qualification, the dole has now become a recognised profession. This protection of idleness is economically and socially a greater issue than the protection of industry and it is one which the Government cannot ignore much longer." [1] As Sir William Beveridge has remarked, "a State which undertakes to relieve adequately and indefinitely from a bottomless purse all the unemployed will soon find itself subsidising the manufacture of unemployment unless it adopts counter-measures." [2]

Adequate remedies are doubtless difficult to find, but it is certain that every section of the community and every political party will soon have to co-operate to stop the rot in the nation's vitality. Even the wealthiest of nations cannot indefinitely resist the damaging effects of a cancerous growth of this nature, and it is little short of suicide to allow this economic disease to continue to sap our strength.

Rating Relief: Rationalisation of Rateable Values.

The burden of central and local taxation has been recognised to bear specially heavily in the case of those depressed industries centred in areas where the severity of unemploy-

[1] "The Trade Position," the *Statist*, 19.7.30.
[2] "Unemployment: a Problem of Industry" (Longmans).

ment has resulted in a considerable increase in Poor Law expenditure and relief.[1] Hence, the conclusion has been reached that some measure of relief would not only help such industries on the road to recovery, but should also enable new industries to be started in many areas which were so highly rated that no business man would contemplate opening a new concern in them under the existing handicap of heavy local taxation.

Accordingly, in 1929, the Conservative Government, then in office, succeeded in obtaining legislative sanction for its comprehensive *Derating Scheme*—aptly described as an attempt at the "rationalisation of rateable values"—the object being to relieve certain industries of part of the burden of taxation represented by local rates. The Act concerned—the Local Government Act, 1929,—was one of the most complex measures ever presented to Parliament, and not only dealt with "derating," but also brought about important and extensive changes in local government administration.

Agriculture especially has been treated generously in the matter of derating. Prior to the passing of the Local Government Act, the Agricultural Rates Act, 1929, had already granted complete exemption from rates due for the half-year ending 3rd September, 1929, in the case of agricultural hereditaments, the consequent deficiency of upwards of £2,000,000 being made good by grants to the rating authorities out of a central Rating Relief Suspense Account. The Local Government Act, 1929, made this relief permanent by providing that, as from an appointed day (1st October, 1929), agricultural land and buildings should be wholly exempt from rates and should accordingly be excluded from future valuation lists. Furthermore, agriculture, in common with coal-mining and other specified industries, was assisted by certain freight concessions which, as from 1st December, 1929, the railways were to make on farm produce, coal and certain other minerals in return for rating relief granted to them.

[1] In the case of cotton and steel manufacture—two typical depressed trades—the burden of local taxation at the beginning of 1929 was computed to represent about 3 per cent. of the total cost of production.

In regard to other industries, the relief granted amounted, in some cases to the whole, and in other cases to three-fourths, of their liability to charges for local rates. In addition, the relief in respect of freight was intended to benefit industry by lowering the transport costs both of its raw materials and of its products. By way of illustration, the two cases of coal and steel can be mentioned, where relief is specially important. So far as the former is concerned, the estimated relief to the whole industry is over £3,000,000 a year, or 3½*d.* on every ton of coal sold. Since the hardest hit section of the coal trade is that which caters for export, the lower freights were made applicable principally to coal intended for shipment abroad, and also to that carried for use in iron and steel works, thus concentrating the maximum benefit in the directions in which most assistance was required. In the case of export descriptions, the relief is calculated to make an average difference over the whole country of 7*d.* per ton, while the iron and steel undertakings are expected to benefit by a reduction of something like 10*d.* per ton on the coal they use, apart from receiving a rebate on the carriage of various ores and other materials. Furthermore, the estimated rating relief of some £500,000 to the iron and steel industry as a whole is reckoned to be equivalent to 3*s.* per ton of finished steel, so that steel manufacture is likely to be cheapened in all to the extent of about 5*s.* per ton.

Over industry as a whole the relief from rates is expected to amount to about £26,000,000, the loss of which to the local authorities is to be made good, not by heavier local assessment of non-industrial properties, but by grants from the central Exchequer. This means that the Government contributions towards derating and in other directions provided for by the Local Government Act will amount to about £47,000,000 yearly, which amount is to be distributed over the various local areas throughout the country according to population as "weighted" by a specially constructed formula.

It is only to be expected that any such artificial device for the distribution of the burden must result in inequalities and hardships here and there, and it is unlikely that the gain

from rating reform will be equally felt in all directions. Prosperous companies in the derated industries must benefit equally with their less fortunate rivals. And since the effect of the burden varies greatly not only as between one industry and another, but also as between one concern and another, the ultimate beneficiary of the derating arrangements may not always be the firm or the industry whose rates are reduced. Repercussions which cannot be foreseen are bound to follow the removal of tax burdens just as they follow the imposition of new taxes.

The Labour Government and Unemployment.

During the period 1924–29, when Mr. Baldwin's Ministry was in office, the Labour leaders were naturally among the most violent critics of the steps taken by the Government of that day to deal with the tide of depression and the burden of unemployment. When, therefore, Mr. Ramsay MacDonald again took office in 1929, the nation was naturally expectant that something radical would be done to relieve the position. At the outset it appeared that it was not to be disappointed. Mr. MacDonald announced that a "Minister of Unemployment" was to be added to the Cabinet, and that Mr. J. H. Thomas, in the joint position as Lord Privy Seal and as the first holder of the new office, would apply the whole of his time and energies to what was now recognised as a question of grave national consequence.

Without doubt Mr. Thomas tackled his unparalleled task with great energy and determination. He was largely responsible, as we have seen, for obtaining the co-operation of the City of London in connection with the finance of rationalisation. He was responsible for inaugurating employment schemes (mainly in conjunction with local authorities) which directly or indirectly have provided employment for upwards of 100,000 people and will involve a capital expenditure, spread over a number of years, of approximately £195,000,000. He also did a great deal in bringing industrialists into conference with a view to furthering the process of rationalisation. But in spite of all such efforts, unemploy-

ment figures mounted week by week after the Labour Government assumed office.

Critics of the Labour Administration have naturally made the best political use of this unfortunate position, and in May, 1930, a political crisis seemed imminent when Sir Oswald Mosley resigned from the Labour Cabinet as a protest against the Government's failure to adopt a more active unemployment policy. It became evident, too, that the nation was becoming restive in face of the continued increase in the unemployment figures, and in June, 1930, it was announced by Mr. MacDonald that the problem of unemployment would be dealt with thenceforward, not under the direction of a Minister of Unemployment, but by a Committee of the Cabinet acting in consultation with an advisory staff of expert Civil Servants. At the same time, Mr. MacDonald issued an invitation to the leaders of other political parties to join the Government in Conference with a view to devising and expediting the implementation of any relief measures which might be desirable. Unfortunately, the Conservative Party, possibly for political reasons, found itself unable to co-operate.

One important point in regard to unemployment the Government Council will find it impossible to overlook is, that any form of employment, whether State-aided or not, which yields a product of less value than the cost of its production is in the long run merely a source of impoverishment to the community. Finding work is likely to be useless unless the work is so profitable as to add to the resources of industry and increase the fund available for future production and expansion.

In this connection the problem of the present level of wages becomes important. The evidence seems clear that labour costs are already too high in relation to the value of the product, partly because output per man has fallen considerably, partly because some labour has become relatively inefficient, and partly because the fall in prices has lowered the industrial return. These are points which must be reverted to again in our final chapter.

Another aspect of the same problem is the effect of

rationalisation on employment. We have already noticed that, while re-organisation in many industries is accompanied by an increase in output, it leads, nevertheless, to a decrease in the numbers employed. Thus, the steps taken by the Government to encourage the improvement of industrial technique on the one hand have increased its difficulties by adding to the burden of unemployment on the other. This result is inevitable, for one reason, if for no other—that the demand for the product of several of the now rationalising industries is highly inelastic. Hence, if we and our overseas competitors are to apply our whole energies to the problem of greater output at less cost, unemployment is bound to ensue either in this country or abroad. If this contention is correct—and there seems no ground for thinking otherwise—then the community must accept the fact that it must either support the displaced labour in idleness (*i.e.* on the dole) or find employment for it either in existing or new industries.

There are, of course, grounds for the contention that it is better to employ a worker at a cost which is in excess of his output rather than to support him in idleness at the expense of his fellows, but it is to be hoped that the Government will seek more remunerative outlets for our surplus labour than its mere employment on non-productive works which immobilise capital that could be better applied in our cotton, wool, iron and other basic trades.

Hence, the Economic Advisory Council would do well to concentrate its attention on what appears to be the one real solution of the difficulty—the creation or fostering of new industries. The rationalisation of old industries is bound to increase the immediate burden of unemployment, but if it is to continue—as it apparently must—then the greatest hope lies in finding new and profitable outlets for the labour diverted. Recognition of this fact lies at the root of the transfer arrangements already in being for moving labour from declining to growing industries, and anything further that the Government can do in this direction must be a contribution, as productive as it is attractive, to the relief of unemployment.

Hope for the Future.

The problems before the Government and the people are obviously of the most intricate kind, but some progress, at least, must follow the steps taken by Mr. Ramsay MacDonald and his colleagues. The investigation into the conditions of the textile and iron and steel industries has already yielded some fruit; the Committee of Inquiry into the relationships between finance and industry is actively pursuing its investigations; the Economic Advisory Council is actively functioning; the City's close interest in the problem of financing industry has been clearly demonstrated by its participation in the great schemes of re-organisation which have so far been put in hand, and, finally, the Overseas Trade Development Council gives promise of much useful work in connection with overseas trade.

Apart from these measures, which have as yet to prove their value, it may be added that, up to September, 1930, nearly £150,000,000 had been allocated to the Minister of Unemployment for expenditure on roads, railways, electricity undertakings and docks with a view to providing work, while considerable financial and other assistance had been given to local authorities for the development of housing schemes—truly a vast and ambitious programme, and one for which the most bitter of Labour's opponents would scarcely begrudge due praise. The Government has applied itself with vigour to the " intelligence " work without which economic progress is impossible, and it is to be hoped that it will show no less energy and industry in putting into practice the knowledge which is thus scientifically being accumulated.

CHAPTER IX

LESSONS OF THE CONTROVERSY

The object of this book will have been achieved if the light thrown on the present problems of industry has been such as to enable the earnest seeker after knowledge to form his own views on some of those matters which are now of the most urgent national importance. Doubtless the Report of the Committee on Finance and Industry, now sitting, will afford some guidance as to the steps which will have to be taken to deal more effectively with the vast changes in the nation's economic structure, but we may usefully conclude this brief survey of the position by summarising its main features and by dealing with a few points which suggest themselves on a review of the centre problem with which we set out to deal—that of the finance of industry.

Root Causes of the Present Depression.

It is clear from what has been stated in the foregoing pages that Britain, by reason of her vast international connections, has been more seriously affected by the War than any other leading nation. During the War years an abnormal percentage of our workers were diverted into particular industries and there was a marked change in the distribution of our overseas markets. Hence, the return of peace found a serious maladjustment of our industrial organisation—over-production in one direction and under-production in another.

Our industry had, therefore, to adjust itself in three directions: first, to turn back into normal employment the workers who had been diverted into War-time occupations; secondly, to find new outlets for its existing products, and to find new products to take the place of those whose markets had been lost; and, thirdly, to adjust itself by rationalisation

to the changed competitive conditions of a rapidly advancing world economy. Unfortunately, progress in these directions was seriously delayed because the artificial conditions of prosperity induced by inflation between 1915 and 1920 culminated in a crash and depression which struck more deeply than any previous catastrophe into the economic foundations of industry.

Following this calamity, at least three important factors have seriously impeded the efforts of business men, and of the Government and their advisers, to restore industrial activity. First, there has been the *prolonged fall in world prices*, which, as is always the case, has seriously arrested trade and production not only in this country but also throughout the world. Unfortunately, the effects of the price-collapse have been accentuated in our own case because it has resulted in a serious reduction in the prices received by us for the bulk of our exports, and because there has been a specially marked "lag" of retail prices and labour costs behind our wholesale price level.

The second factor has been the *inroad made into the savings* of capitalists and into the reserves of industry by high direct taxation, resulting in too heavy a transfer of funds from the finance of industrial development to the finance of social services which the nation is not yet in a position to afford. As a result, there has been an immoderate expansion of consumption mainly of luxury and semi-luxury articles, which position has been accentuated by the protection or "sheltering" of certain trades whose workers have profited by a marked rise in *real* wages and have, in effect, benefited at the expense of the rest of the community. The burden of taxation on industry has been partly dealt with, as we have seen, by rating relief, but it appears likely that something further will yet have to be done to relieve taxation on funds reserved for future development.

Finally, there is the *rigidity of our economic system*, embracing not only industry itself and the workers therein, but also our banks and financial institutions on which industry depends for its life-blood—capital. The obduracy, ultra-conservatism and obsolete individualism of our em-

ployers have kept British industrial technique many years behind that of its foremost competitors. The rigidity of our wage system—thanks to the strength of labour and the lack of co-operation among certain groups of employers—has prevented that adjustment which the collapse in world prices has rendered imperative if labour costs are to be brought down to a level which a sadly overburdened industrial machine can properly bear. The rigidity of our retail trading methods has kept retail prices at an unduly high level whilst wholesale prices have collapsed. Likewise, the rigidity of our banking system, with its adherence to the traditions of deposit banking and its inability to meet the urgent long-term requirements of industry, has militated against industrial recovery and re-organisation.

The Adjustment of Labour Costs.

Without doubt the collapse in world prices has been largely responsible for and has greatly accentuated our difficulties, but the crux of the present situation in this country appears to be the high ratio of labour costs to the value of industrial output. Too high a proportion of the burden caused by the price collapse has fallen on the shoulders of the employer and too little on those of the worker. Judged by the present position of industry and by the present level of industrial profits and prices, the share of the worker, as represented by wages, is too great. This position is due partly to the need for increasing the output of industry per man-day by rationalisation and greater co-operation between labour and capital, and partly to the increase in the real cost of labour as a result of the collapse in world prices and the increased burden of social charges.

The following most recent figures [1] available at the time of writing indicate how marked is this maladjustment:

	Wholesale Prices.	Retail Food Prices.	Cost of Living.	Wages.
Average 1924 . .	100	100	100	100
Sept. 1929 . .	81	91·5	94·5	99
,, 1930 . .	65	84	89·5	98¼

[1] *Statist*, 18.10.30.

It will be observed that wholesale prices in September, 1930, showed a decline of 35 per cent. as compared with 1924, retail food prices a decline of 16 per cent., and the cost of living a decline of $10\frac{1}{2}$ per cent., whereas the nominal level of wages fell in the same period by only $1\frac{3}{4}$ per cent. In considering these statistics we cannot, of course, ignore the fact that, since the number of unemployed had increased from an average of 941,000 in 1924 to about 2,175,000 in September, 1930, the rise in real wages has not involved a proportionate benefit for the working class as a whole. On the contrary, the maintenance of high real wages has been effected at the cost of industry as a whole, and particularly of the unemployed workers in the less fortunate trades.

Thus the vital truth lies in the proposition enunciated by Sir William Beveridge: "If and in so far as unemployment is now resulting because, through the fall of prices, real wages have risen and become rigid at a point above the productivity of the marginal labourer, the remedy must be sought in restoring the equilibrium thus disturbed. It cannot be found elsewhere." [1] And as another observer has stated, "Our trouble has its roots in famine prices for coal, iron and steel, caused mainly by excessive labour costs, short output and interrupted production. Neither the gold standard nor the increased Bank rate was, or is, more than a fraction of the 'whole story' of our unemployment." [2]

Somehow or other, therefore, the balance between real wages and industrial productivity must be restored. But it seems clear that in the present political state of the country, and in the absence of a real bond of interest between labour and capital, there is little hope that any reduction in labour costs can be looked for through a direct decrease in nominal wages. Unfortunately, it is as true to-day as it has been in the past that mistrust of capital by labour and of labour by capital is at the root of many of our troubles, and is only too clearly an important factor preventing that co-operation, that partnership, to improve industrial technique without which lasting progress must be difficult to achieve.

[1] "Unemployment, a Problem of Industry," by Sir William Beveridge (Longmans).

[2] "Why Trade Depression?" by Sir G. B. Hunter, *The Times Trade and Engineering Supplement*, 20.9.30.

Already we have unhappy evidence of this in the stubborn resistance offered by certain important unions to proposals that nominal wages should be reduced in the interests of the industries concerned. The long-drawn-out dispute in the Yorkshire woollen industry has already been mentioned. More recently, the National Union of Railwaymen and the Associated Society of Locomotive Engineers and Firemen have indicated their intention, not merely to resist any reduction in the wages of their respective groups, but actually to demand increases.

With the possibility of a reduction in wage rates ruled out of the question, there appear to be two possibilities left to the country: (*a*) to continue the process of rationalisation with the object of still further reducing industrial costs, and (*b*) to stimulate the demand for industrial products by increasing the community's purchasing power. Both of these courses of action call for changes in the policy and technique of our banking institutions and monetary authority.

Rationalisation cannot proceed with that smoothness and rapidity now so essential to industrial recovery without the closest co-operation between the banks and the leaders of industry, but, assuming that such co-operation is ensured, effective rationalisation will enable the industry more easily to bear the burden of high wage costs, increase the national income by greater efficiency of production,[1] and also increase the purchasing power of the entrepreneur class without necessitating a rise in wholesale prices.

An increase in the people's purchasing power can be brought about by the provision of employment at reasonable rates for the out-of-work population and by a rise in *real* wages. In regard to the first of these, it has already been pointed out that anything the State can do in the direction of fostering existent industries and encouraging the growth of new ones cannot fail to be beneficial. Increased employment would mean greater demand for the goods produced, and the better balancing of demand and supply would

[1] Cf. Dr. T. E. Gregory's Presidential Address to Section F of the British Association, September, 1930.

assist the closer adjustment of wholesale and retail prices. But here again the co-operation of the banks and monetary authorities is essential. Manufacturers cannot increase their productive capacity and institute new enterprises unless they are assured of adequate supplies of credit, and it may be that this can be brought about only by a departure from orthodox gold standard principles, and by a further advance of banking technique, matters which are discussed below.

The other possible method of increasing purchasing power is by a rise in *real* wages. Under-consumption, as we have seen, is one of the primary causes of our existing difficulties, and consumption cannot be effectively stimulated except by increasing the purchasing power of the masses. But, if industrialists are to be believed, any such increase involving a rise in wages is impossible if it involves any increase in *wage costs*, *i.e.* an increase in nominal wages whilst wholesale prices remain as they are or continue to decline.

Hence, an increase in real wages can come about only if wholesale prices increase relative to retail prices, which means *either* that wholesale prices must rise whilst retail prices remain constant, *or* that retail prices must fall whilst wholesale prices remain as they are. A rise in wholesale prices may be brought about by credit expansion by the Central Bank, but there are grave objections to such a course from the point of view of our export trade, since our export prices are already too high for effective competition in world markets. Moreover, any upward movement of wholesale prices would be almost immediately followed by a corresponding rise in retail prices (*unless* the latter were subject to a greater degree of regulation or control than has hitherto existed), and by new demands on the part of organised labour for higher wages.

The alternative is a fall in retail prices, and that there is ample scope for this is indicated by the statistics previously given. Indeed, the lag of retail prices in the wake of wholesale prices is probably a much more important factor in the present situation than most people imagine. There is

obviously far too great a margin between the prices which producers receive and the prices which consumers pay. The activities of middlemen prevent that adjustment which is essential for the true play of economic forces, and there is reason to believe that retail traders have not done all they could do to stimulate trade by reducing prices. It would appear, therefore, that the required adjustment may be best effected by suitable action to control retail prices. Recognition of this important conclusion probably underlies the Bill introduced by the Government in May, 1930, to provide for the establishment of Consumers' Councils having for their object the regulation of the prices of food and clothing.[1] If retail prices can be reduced by such measures, the position of the working classes will be improved; the reduced prices of retail goods will encourage demand and production will correspondingly be stimulated. On the producer's side the disadvantage of having to sell at low wholesale prices and buy at high retail prices will be lessened, while the increase of demand should enable him to expand his output and add to his profits. But any attempt by industry to cope with an increased demand without effective rationalisation is doomed to failure, and rationalisation, as we have seen, cannot proceed to the required extent without the sympathetic co-operation of our banks and monetary authorities. Hence, we conclude that while a fall in retail prices appears to be the first object for which we should strive, that fall, like the extension of productive activity required to afford further employment, implies certain adjustments in banking and monetary policy. This point requires further examination.

SCOPE FOR THE BANKS.

So far as the finance of rationalisation is concerned, it is clear from what has been stated in earlier chapters that much progress has been achieved by the banks in the provision of the necessary machinery. But up to the present little has

[1] Germany, also, recognising these facts, is making a determined effort to bring about a closer adjustment between wholesale and retail prices. To this end, all agreements purporting to fix retail prices have been declared to be invalid as being contrary to public policy.

been done in the direction of more intimate contact by the banks with industrial conditions generally and with industrial finance in particular. On a review of all the facts, the evidence seems clear that in the last fifty years our banks have been content to develop the relatively simpler and securer system of deposit banking without giving an adequate measure of attention to the changing economic needs of the country. Their constant regard for safety has without doubt created a system of unrivalled stability, which has removed from English banking the stigma of failure that so shockingly characterised its history in the early part of the last century. But it appears now that a little more initiative at the right time and the assumption of a little more risk at another might have done much to save the nation's industrial economy from its present deplorable condition. In this connection the following conclusions suggest themselves.

First, it appears to be an undoubted fact that our great banks, in spite of their vast resources and the enormous extent of their business, are years behind even much smaller institutions in other countries—notably America and Germany—in the attention which they give to the investigation and collation of statistical data on matters of banking and monetary importance. It is true that, in recent years, our leading banks have instituted Intelligence Departments which are intended to perform some service of this kind. But an investigation of the working of these Departments, and of the conditions under which they are administered, justifies the suggestion so frequently made, that in the majority of cases they are far below the standard set by important foreign organisations. One fact alone is sufficient to prove both this and also the contention that the joint-stock banks do not attach sufficient importance to having at their immediate disposal first-hand information and advice on vital economic questions; that is, the fact that the heads of the so-called Intelligence Departments, in spite of the valuable work which they do, nevertheless hold relatively subordinate positions in their respective institutions, and are remunerated on a scale not in any way commensurate with the importance of their advisory functions.

ECONOMIC AND INDUSTRIAL ADVISORY DEPARTMENTS.

It seems obvious to an outside observer that the banks, by the institution of economic and industrial research departments or by taking some similar steps, must obtain a far more intimate knowledge, not only of the particular undertakings with which they are in close business relationship, but also of industrial groups and of industry as a whole. The large banks are now so much centralised in London that they cannot possibly have that close contact and immediate acquaintance with important localised industries which was possessed by the private bankers of the last century. Moreover, the problems before the local managers are now so intricate that they should be in a position to obtain the most expert and up-to-date information and advice, not merely on the financial position and prospects of an individual concern, but also on the general outlook for the industry of which it forms a part, and of the anticipated trend of business conditions throughout the country as a whole.

That there was urgent need for some such development was indicated as long ago as 1916 by the Departmental Committee on Financial Facilities for Trade, when, in suggesting the formation of a new banking institution to assist trade, it stated that "the Institution must be equipped with an up-to-date Information Department, and this will of necessity play a large part in its usefulness and financial success. This might properly be called a Bureau d'Études. . . . That such a Bureau is essential has been made abundantly clear by the evidence given by witnesses we have heard and also by the evidence given before other Committees. It would not necessarily deal only with schemes in which the Institution proposed to take financial interest, but might be made a centre for investigation of projects on behalf of others. . . . One of the chief objects of the Bureau, for instance, would be the organisation and keeping up to date of returns as to the status of firms abroad."[1]

Can it for a moment be doubted that, if the great banks of

[1] Cd. 8346, 1916.

this country had given a lead in the compilation of industrial and financial statistics, in the investigation of business conditions, and generally in maintaining an expert watch on economic tendencies, much of the troubles of the past decade would have been avoided? Can it be doubted that the process of reconstruction would have been hastened, that the banks themselves would have been saved enormous losses and the tie-up of large resources as "dead" loans or frozen credits, if they had maintained well-equipped economic staffs which should at least have apprised them of the changing position of our basic industries in the world's economy? And, finally, is there not much to be said for the contention that theoretical—nay, even academic—assistance might have guided our practical bankers sooner to the realisation that the special interests of individual firms cannot be entirely divorced in the modern community from the interests of the industry of which they form a part, and that re-organisation cannot proceed unless the conflicting claims of various banks are reconciled in the interests of industrial groups and of the nation as a whole? Development on some such lines would unquestionably prevent a recurrence of that disastrous competition among the banks which has been only too much in evidence in recent years and has led them to grant to large financial and industrial groups advances of unjustifiably large dimensions.

Both the interminable appointment of committees and the wholesale investigation which is proceeding now that our vital industries are faced with ruin are so characteristic of British methods generally that presumably generations must pass before they are radically altered. Yet it seems a great pity, to say the least, that the information and the knowledge should not have been available in time to prevent, or at any rate to mitigate, the present catastrophe.

"The banker's attitude to the current business outlook ought to be wider than that of any single one of his customers, because bankers are in touch with all of them." [1] He should use his superior knowledge to reinforce their partial view of

[1] Dr. T. E. Gregory, "Function of the Banks in Modern Commerce," *Financial Times*, 3.10.27.

the situation, or to correct it; otherwise he may find himself swept away by the tide. The banker should occupy a strategic position which should enable him to exercise some influence over the course of current business. In periods of expansion his superior knowledge and expert appreciation of the national position should permit him to exert a judicious restraining influence as much in the interests of his customers as in the interests of himself and of the nation. On the other hand, in times of depression his superior acquaintance with general tendencies should enable him to guide productive effort into profitable channels, to stimulate enterprise where such stimulation appears to be necessary, and to induce his customers to dissociate themselves entirely from business propositions which are already doomed and which careful consideration would show to be undeserving of further expenditure of either the customer's time or of the bank's money. Without the slightest doubt, one of the most important responsibilities of finance at the present time is to help to steer new savings into those channels where they are likely in the long run to be most productive. By pursuing a statesmanlike and far-sighted policy the banks could do much to ensure that the control of industry shall pass into the hands of those who are most capable of assuming it.

It is suggested, therefore, that by the establishment of well-equipped industrial departments the banks could render increased service in the directions indicated. It would be the business of the departments to keep in close touch with the principal industrial customers of the bank, to study industrial conditions at first hand and to advise on all financial questions appertaining to industry.

It seems obvious that the development of well-staffed industrial departments would have beneficial effects in that it would obviate unsound lending as a result of excessive competition for business. The industrial departments of the banks would not, and could not, operate without some degree of sensible co-operation, and would, therefore, substitute for unrestrained competition closer agreement and better understanding on matters of policy affecting industry in general or a group of important industries. As a result,

the banks should be better able to judge not merely the effect of their assistance to individual customers, but also the result of their loaning policy on the business life of the community.

A Central Statistical Bureau.

The urgent need for some such co-operation opens up even further possibilities for the future. It is obvious that if each great bank had an industrial department functioning independently there would necessarily be a vast amount of overlapping in the collection and recording of statistical data of financial, industrial and general economic importance. Why, therefore, cannot such functions be discharged for the English banks, as they are in Germany, by a first-class centralised bureau of information jointly supported by the banks? Such an organisation could be worked as a separate institution, but in the author's opinion it could most usefully and economically be combined with the existing functions of the British Bankers' Association. Such an arrangement would not only ensure control in the interests of banking in this country as a whole, but it would also make for the creation of a new intelligence branch of strict impartiality as between the banks, and of the highest economic value both to the banks themselves and to the community at large.

Happily there are indications that the Bank of England is alive to the needs of the moment, and it is to be hoped that the Bank's action in appointing well-known economists to its permanent staff will stir the joint-stock banks to some such action as is here suggested, for the good of themselves, of their customers and of the nation whose interests must be their own.

Representation in Industry.

Apart from the necessity of obtaining first-hand information and advice on matters of general economic importance, there is the need for the banks to keep in the closest possible contact with the large industrial agglomerations in which they are financially interested. In the past, when small organisations have been the rule rather than the exception,

the average size of advances to individual concerns has been relatively small. But the modern tendency, as we have seen, is to amalgamation, with a consequent increase in each bank's commitments to individual industrial units. The joint-stock banker of the future is not quite likely to be able to rely as much as his predecessors have done on the wide distribution of risks implied by a large number of loans of small amount. On the contrary, the tendency will be for industrial loans, at any rate, to increase in amount, and to become far more concentrated in extent, with a corresponding increase in the burden of risk.

It would seem, therefore, that the banks cannot fail to gain and to avoid at least some of the costly mistakes of the past, if they arrange, through newly-constituted industrial departments, for direct representation on large organisations wherein they are financially interested, and so place their advice directly at the disposal of leading industrialists. Such arrangements would enable the banks to guide industrial customers as to the best way of obtaining financial assistance and of carrying out financial operations which are not within the province of deposit banking. On the other hand, they would enable the banks to obtain first-hand and accurate knowledge of the measure of risk implied in their more important short-term industrial commitments.

The modern needs of large-scale industry cannot adequately be served by a mere discussion in a bank parlour between the bank manager and the representative of a company customer. If financial assistance by the banks is to be on a scale commensurate with present-day demands there must be a far more intimate and direct contact. The supersession of the private banker by the joint-stock institution has meant that, for the overwhelming part, decisions in regard to loans and advances are taken by persons themselves disinterested pecuniarily in the result of that decision; but the supersession of the individual concern by the large combine must inevitably reverse the process. Henceforward the banks must be far more closely concerned with the application of capital advanced by them, and it is right, therefore, that they should be in the closest possible

contact with those who have the control of the funds so made available. Representation of a bank on the Board of a large undertaking in which it is heavily interested would not only ensure that the bank would obtain more complete information and fuller confidence by the presence of its representatives at the discussions and negotiations of the Directors, but would also enable the point of view of the bank as the company's financial adviser to be directly and so more clearly presented and understood.

In seeking this closer association with industry there is no reason why the banks should depart from the essentially British banking attitude of respecting individuality and avoiding anything which savours of compulsion or pressure in regard to the financial arrangements of customers. By the method here suggested, without any semblance of control, coercion or interference, a banker could fulfil the rôle of financial adviser and counsellor with benefit not only to himself but also to his customers and to the industries of which they form a part.

At the same time, the desire to maintain the existing system of non-interference should not deter the banks from taking a markedly active part in future industrial development and from instituting changes which will establish between them and industrialists a more sympathetic understanding and a better appreciation of each other's difficulties and policy.

There is a final point. Arrangements of the kind here suggested would enable the banks to keep in far closer touch with the issuing side of industrial finance, and so ensure a greater measure of collaboration between commercial and investment banking. At present, English bankers consider investment banking so far outside their province that they repudiate any responsibility for the soundness of concerns on whose prospectuses they permit their names to appear. But it is suggested that the development of industrial departments would obviate what is now too frequently the case—the support of the name of a leading joint-stock bank on the prospectus and other literature of an entirely worthless undertaking. If this were the only good that resulted,

immeasurable benefit would be conferred not only on legitimate industrial enterprise, but also on the public at large.

The Matter of Personnel.

The question of personnel for such departments must necessarily be a vital matter. Commerce has hitherto played so large a part in the nation's economic life that there is a great deal in the suggestion that much of the joint-stock banks' expert personnel is fitted rather for the commercial side of banking than for the industrial side. Hence, the banks will be faced with the task of training representatives who are specially qualified to deal with industrial problems in all their great variety.

Such work will require not only first-rate ability, but also sound knowledge and wide experience. And in this regard the question arises: Do our great joint-stock banks yet appreciate that first-rate ability such as is needed in their leading executive positions cannot be commanded at salaries which are ridiculously low as compared with those applicable to similar positions in other leading countries?

"Banks in Germany would doubtless not claim that they have solved the question of personnel, but they do offer, to those who attain the highest positions, financial inducements commensurate with those obtainable in any other line of business. The same holds good for bankers in America, particularly investment bankers. Incomes of five figures (sterling) are by no means exceptional prizes in Germany, and those who get right to the top receive a good deal more. While the importance of this should not be exaggerated, the problem of attracting exceptional ability and giving it scope to unfold itself is one of the most vital of those which confront the huge organisations of banking and business to-day.

"In this connection, it is to be observed that German banks do not select their higher executives by any means exclusively from among the ranks of their officials. It is perfectly possible to work right up to the top from a clerkship, and many leading bankers have done so, but it is not unusual to bring men in from outside. There is a fairly free exchange of personnel between the joint-stock banks and private banking and Stock Exchange firms. In fact, a very large proportion of leading bankers have had a Stock Exchange training, either in a private firm or in the Stock Exchange department of their banks. The Stock Exchanges have always been in close contact with industry, and

the wide knowledge of the principal companies and industries gained there have stood bankers who have had this training in good stead. Occasionally, too, industry has been drawn on, but it is more usual for industry to recruit its financial executive from banks than vice versa. On the whole, while the banks are quite prepared to bring in men from within the banking and financial world, whenever they think it desirable, absolute outsiders are less often appointed than in America, where corporation lawyers and technical men quite often enter both commercial and investment banking in middle life. The system is really something between the freedom of choice (disregarding family considerations) exercised by private City firms in England and the strict "Civil Service" recruitment of the joint-stock banks."[1]

GREATER REGARD FOR THE BORROWER'S INTERESTS.

Another problem on which opinion may be hazarded is that of the relationship between banks and borrowers generally. Without question, the banks in this country will soon have to recognise that the future fortune of the country depends very largely on a greater measure of attention to the interests of the borrower. Hitherto our banks have insisted that they must, first and foremost, have regard to the interests of depositors; that their loaning policy must at all times be conditioned by their obligation to repay funds left with them by their customers.

But the time is rapidly approaching when the banks will no longer function as mere cash-boxes. Customers are fast becoming educated to the realisation that the placing of funds in a bank is as much an investment as is the placing of funds in shares, with the added advantage, in the former case, that the funds can be withdrawn intact at any time, although in return for that privilege the customer forgoes a large margin of interest which he might obtain elsewhere. If he does not already do so, the depositor will soon have to recognise that his money is not kept waiting for him in the bank's safe, but that it is being used in a multitude of ways, to assist trade and industry, to grow crops and to build ships. And he will have no reason for complaint. The time is long past when the depositor expected to draw out gold

[1] *Economist*, 29.3.30.

or other legal tender in any quantity. If he requires funds for immediate employment he uses either a cheque or a bank draft, and, so long as his requirements in this regard are met punctiliously, what can it matter to him how the bank's funds are utilised?

Hence it is suggested that the loaning tradition of deposit banking as it is now understood will soon go by the board. The banks will have to look to the interests of the borrower as much as to those of the depositor, and the difficulties now in the way of making long-term advances must be overcome. Our joint-stock banks, like the banks of Germany, the United States, and other leading countries, must adapt their machinery to deal with the changes in the economic system. The banks are the first to complain that industry has not re-organised itself to meet modern conditions, and that labour retains its Victorian immobility and does not adjust itself to present-day demands. But the reply of industry and labour is that the English banking system is years behind that of other nations in its stage of development, and that modification, without any sacrifice of its present safety and elasticity, is essential in the interests of the country.

Mr. F. C. Goodenough has stated that the "History of banking is a record of the efforts which have been made to adapt the financial organisations to the expanding needs of commerce and industry, and the large banks of the present day have really been called into being in order that they may better meet the demands made upon them." [1] Yet it seems indefensible that, in recent years, the rigid adherence to the letter of the system of deposit banking has prevented the banks from moving abreast of the times, and some distinct advance must be looked for if the implications of Mr. Goodenough's remarks are to be fulfilled.

It is still true, as Mr. Tennant has said,[2] that "amid all the changing facets of world life, Britain has two assets at least which have not changed in value. The first is the inherited skill and vigour of our workers by hand and brain; the other, not less important, is the physical advantage of our

[1] In an address on "Banking Progress" to the Anglo-Swedish Society at Gothenburg, May, 1926.
[2] Westminster Bank Annual General Meeting, 1930.

geographical position." But all the skill and vigour in the world, unlimited natural advantages and immense capital resources are useless in the modern competitive age unless they can be put into productive operation and co-operation by an efficient financial mechanism. Without adequate banking facilities the commercial machine cannot work smoothly; it is merely a ponderous incubus.

Proposals Distasteful to Bankers.

Only by actively grappling with these problems can the banks ever hope to ward off such questionable remedies proposed for the present industrial situation as the nationalisation of banking, restriction of overseas lending and tariff measures of a protectionist character.

In regard to the last of these, the argument is irrefutable that Britain's international banking and financial business has thrived largely by reason of her open-door policy of freedom of trade with all nations, and it still has to be shown that this business, with which our bankers are, of course, so intimately concerned, will not be imperilled by the adoption of such suggested palliatives as general Protection and increased Empire preference.

Then, so far as restrictions on overseas lending are concerned, it is unfortunately only too often forgotten that our overseas investment services are of immense value both to the country generally and to the working population of our mills and factories. From the beginning of Britain's wonderful economic expansion there has been the closest relationship between the growth of her wealth at home and the enterprise and endurance, the courage and skill of those who have adventured their capital abroad in a multitude of undertakings.

In pre-War days Britain stood unrivalled as a loaning country. From the early years of the nineteenth century until 1914 a constant stream of productive capital flowed to other lands from the great reservoir of wealth which Britain had amassed through her epoch-making inventions connected with the steam-engine, railways and textile manufacture. The savings of British investors contributed

to the opening up of the gold mines of Australia and South Africa, to the development of the productive interiors of the Argentine and Brazil, to the construction of railways in India and China, to the establishment of rubber plantations in Malay, to the planting of cotton-fields in the Sudan and to the financing of governments and municipal enterprise all over the world. And happily for Britain, the outflow of capital was accompanied by an export of British machinery and manufactures, and of British skill, both of employers and of workmen. The textile and engineering industries, first of Belgium, then of Northern France, and later of Germany, owed much of their development to these exportations, while the subsequent growth of their mining industries was largely attributable to the import of machinery incorporating the inventions made during the industrial revolution in this country. On the Continent, in North and South America, in Australia, South Africa and the Far East, railways laid and equipped with the aid of British capital and British contractors promoted a still greater demand for British products and British capital. British capital has thus been poured all over the globe, adding to the productive power of all countries and of all peoples.[1]

British investors, who have thus given hostages to fortune by loaning money wherever money was needed, may justly claim to have done more than the nationals of any other country for the progress of civilisation and the advancement of man. And the City of London is able to maintain its great population with a standard of prosperity that is the envy of humbler centres because its bankers, financiers, accepting houses, discount houses, produce merchants and allied businesses have rendered, and continue to render, unequalled service in promoting world development, world production and world trade.

Among certain sections of the community there is a

[1] Some idea of the extent of the financial assistance rendered in this way by Britain to other nations may be gauged from the fact that her aggregate overseas investments in 1914 were computed to be in the neighbourhood of £3,500,000,000. In consequence of the sales of our dollar securities during the Great War, it is estimated that this total has been reduced to approximately £2,000,000,000, although this figure is now being increased at the rate of about £150,000,000 per annum.

tendency to imagine that those who are engaged in the hundred and one tasks connected with our enormous investment overseas—vaguely described as the "World of Finance"—constitute a danger to the true economic interests of society, and that they are in the nature of parasites who batten on the real producing classes. Such criticisms show a lack of appreciation of the fact that the volume of production and consequently of employment in this country has reached its proportions in past years largely as a result of our investment in foreign countries, and in the future will directly depend upon a continuance of that investment. Hence, restrictions on overseas loaning, unless they are of a temporary nature, cannot be other than detrimental to a nation whose existence depends so essentially on the maintenance of an extensive export trade. "Financial isolation is impossible, more particularly to a nation such as ours, whose whole history is wrapped up in international trade and international finance. It is a retrograde policy, and our salvation should be sought in a removal of the hindrances to a full development of international trading relations rather than in a policy of isolation. Attempts have been made in other countries to hinder the transfer of capital from one country to another, but such attempts have invariably ended in failure." [1]

Nationalisation of the Banks.

There is unquestionably a growing body of opinion—especially in Labour circles—that the nationalisation of the banks is necessary both to ensure adequate credit supplies for industry and to combat the supposed evils of financial monopoly. Unfortunately, the advocates of nationalisation frequently advance suggestions which are sadly lacking in merit. They appear to think that the banks control some mystic reservoir of credit or purchasing power which can be drawn upon without limit, but that capitalist and financial interests for selfish reasons of their own refuse to make available adequate supplies for industrial and trade needs.

[1] Mr. R. Holland Martin, Presidential Address to the Institute of Bankers, 6.11.29.

They consider that the banks, by virtue of monopolistic powers, maintain a stranglehold over credit which, if released, would lessen the hardships of the working classes and lead to a new world of fresh enterprise, social reform and rapid development.

It is clear to all but the uninitiated that the joint-stock banks have no option in the matter. So long as the present cash proportion is maintained, neither advances nor deposits can be increased unless bank cash is increased, and the control of bank cash, as we have seen, is entirely in the hands of the Central Bank, *i.e.* of the Bank of England. Moreover, it is in any case "difficult to see how the banks could function more cheaply or more effectively under Government control. There is still plenty of competition among the banks, and this tends to keep the service efficient and charges low, whereas in a State monopoly, surrounded, as it would be, by all manner of red tape, the facilities available for the public would, to put the case mildly, scarcely be improved. The banks as now conducted are free from political influences, and can consider on its merit any proposition submitted to them. Under Government control there would be all kinds of competition for the available resources, and who would care to say that political influences would not play a large part in deciding their allocation?

"So far as the Bank of England is concerned, it is already something in the nature of a semi-public institution, as it always takes such a public-spirited view, but it has the safeguard that its capital is privately owned, and it retains its independence. It can scarcely be said, even by the most severe critics, that profit is its chief consideration, especially when its action in surrendering to the Government the excess profits of the War period is remembered. The Bank of England is a national asset of vast importance with world-wide prestige, and to nationalise it would be to run the risk of destroying much of its reputation and of impairing the disinterested partiality which at present makes it so admirable an institution for regulating monetary policy."[1]

However lacking in logic and foundation the arguments of the exponents of nationalisation may be, the facts remain that

[1] "Political Banking," *Financial News.*

their suggestions have a wide measure of support and that they must be decidedly objectionable to bankers in general. But they cannot evade the argument that "as there is only a limited supply of capital, and as credit can only be expanded within limits, it is vitally necessary to ensure that the available resources are used in the best possible way from the standpoint of the nation as a whole. It is no less essential that the banks should refuse extended credits to the wrong people than that they should grant them to the right people. This involves that the banks must be managed with a view, not to their own profit, but to that of the nation as a whole. It is the final argument for transferring the bank monopoly from private to public hands."[1]

By unstintingly giving industry the full measure of their assistance, experience and skill, our bankers will do much to silence such clamourings. So long as the existing institutions indicate clearly that they are actuated not solely by individual interest but also by national considerations, it seems unlikely that the great body of people in this country will seek to interfere with their present private constitution. Moreover, they will stand to gain not only from the greater prosperity of their own domestic business, but also from the fact that the prosperity of their international business will not be jeopardised by fiscal experiments and restrictive measures whose effect on London's position as a leading monetary centre is as yet such an unknown quantity.

Banking Facilities and General Monetary Policy.

At several points in the foregoing survey it has been demonstrated that effective rationalisation and industrial progress depend very largely on a sympathetic loaning and credit policy on the part of the banks. But it has been stated that an important argument adduced to justify the restricted facilities now offered by the banks to industry is that they have already loaned up to the limit of their capacity. Assuming that the banks adhere to the so-called "traditional" ratio of cash to liabilities, this capacity to lend depends essentially on the amount of bank cash (*i.e.* legal

[2] G. D. H. Cole in *Everyman*, 17.4.30.

tender currency together with balances at the Bank of England) which is available for distribution among them. The amount of bank cash, in turn, is conditioned by the credit policy of the central monetary authority, *i.e.* the Bank of England working in consultation with the Treasury. Hence, the question naturally arises: How are the joint-stock banks to provide adequate financial assistance for industrial development unless the Central Bank makes available credit supplies adequate to meet the requirements?

In this connection the following arguments from the *Midland Bank Review* may be quoted with advantage, since they doubtless embody the opinions of Mr. McKenna, who, on the question of the restriction of credit facilities, has on numerous occasions led the criticism of our Central Bank: "It is necessary to set aside the notion, all too widely and too simply accepted, that expansion of credit must inevitably produce inflation—that is, a rise in prices. So far from an expansion of credit always and necessarily producing a rise in prices, it may result in a fall, for it may facilitate a greater volume of production, at lower overhead costs. At least, the large credit supplies may very well be used to finance greater production at a stable price level, or in the alternative they may lead initially to a slight rise in prices, which will be neutralised when the greater productivity makes its appearance. What are the conditions under which such a result—namely, the absence of any material rise in prices—would be likely to occur?

"They would seem to be just those conditions which obtain in this country to-day—production well below capacity to produce, and a large unoccupied but potentially efficient labour force. It is essential . . . that credit and currency supplies shall be so arranged to meet the requirements of industry and commerce that industrial recovery will not be arrested by the lack of credit facilities as soon as increased production becomes effective.

"Now, since an expansion of credit may take place without causing prices to rise, it follows that, even within the limits set by the gold standard, there exists a considerable margin for the free play of monetary policy, with a view to main-

taining activity in industry and trade. It is an obvious misconception to suppose that the one thing necessary to trade prosperity is constantly expanding credit supplies, for beyond a point, which it is not difficult to perceive, additional credit must push up prices and, if continued, must lead to the abandonment of the gold standard.

"At this stage credit expansion is inflation pure and simple. The main point is that in some conditions credit expansion may not be inflation at all. Finally, it must be remembered that a credit policy aimed at maintaining full business activity without a rise in prices is not a matter that legislation can ensure, but depends on the financial statesmanship of the monetary authorities. All that legislation can do is to make the conditions less difficult for the exercise of financial statesmanship." [1]

In brief, the suggestion is that, if the Bank of England were willing to permit an expansion of credit within legitimate bounds, the joint-stock banks would have increased supplies of bank cash at their disposal. Against this they could extend their credit facilities; advances would increase, and so also would deposits. Increased purchasing power in the hands of the community would stimulate consumption and production without necessarily forcing up prices. At the same time, a greater margin for saving would be created, and as savings increased, the banks would have still greater resources from which to meet industrial requirements.

Such suggestions are typical of the views of our most critical monetary group and involve some of the most acute points of recent controversy. But there does not seem to be any ground for the suggestion made in some quarters, that the Bank directorate is not as fully alive as other monetary authorities to the fact that an increase in the volume of credit can be achieved on non-inflationary lines and with little, if any, increase in the general price-level, provided the expansion of credit is not permitted to outrun the growth of industrial production and the economic development of the community. Actually, there is every reason to believe that the Bank itself would not be opposed to a moderate credit

[1] *Midland Bank Review*, March, 1930.

expansion so long as it was satisfied "that the additional credit so created would be truly reproductive and would help, by setting export industries on their feet, to strengthen our international balance of payments. This is altogether different from creating credit for the purpose of road construction and other works of essentially relief character." [1]

On the other hand, there is every reason to suppose that the Bank authorities do not lose sight of the fact that the beneficial effects of an expansion of credit would be entirely and immediately negatived if it led to a rise in retail prices and in the cost of living, to an upward impulse of money wages and a renewal of the inevitable labour troubles which have so seriously marred the nation's recent commercial history. Hence, while it seems clear that the present level of real wages is higher than industry can properly bear, except at the cost of a large volume of unemployment, there are good grounds for the contention that a new wave of inflation, unless it were subject to some new measure of control of which monetary authorities have yet to prove themselves capable, would increase rather than ameliorate the nation's present industrial troubles.

The problem thus appears to centre on the question whether the Bank of England and the banks in co-operation can sufficiently increase the basis of credit without bringing about an immoderate rise in prices. On this point one suggestion presents itself. Banking technique has in the last fifty years so improved that the banks have found it possible to reduce markedly their traditional ratio of cash to deposits without detrimentally affecting their capacity to meet any demands which may arise. It seems likely that there is now room for a further advance in the same direction, especially as joint-stock banking in this country is so consolidated and popular opinion so impressed with the strength of the banking fabric that any marked depletion of joint-stock bank cash reserves is an extremely remote possibility. Of one thing we may be certain. Action by the banks in the direction of widening credit facilities could not fail to meet with a large measure of approval and would go a long way

[1] *Statist*, on "The City and Unemployment," 18.1.30.

towards satisfying the demands of those who see in such quack remedies as the nationalisation of the banks the only cure for the nation's present troubles.

WHY NOT TWO MONETARY POLICIES—EXTERNAL AND INTERNAL?

Clearly, any deliberate expansion of bank credit by the Bank of England itself under present conditions would involve a radical departure from existing monetary policy. So far, that policy is largely conditioned by the inflow and outflow of gold, and any marked change therein would really mean the adoption of one line of policy in relation to the external exchanges and another line of policy in reference to internal conditions. It would mean that for internal purposes we should have what would be, in effect, a managed paper currency controlled without reference to our gold reserves and without immediate reference to the exchange position, and that we should utilise our gold holdings solely for the purpose of balancing our international payments. In other words, it would imply the regulation of the internal credit and currency structure independently of gold movements to and from the country; or, as Mr. Keynes has put it, "that we should establish discriminating rates of interest for home purposes and for foreign purposes respectively." In this way it might be possible to maintain the internal rate of interest at a level sufficiently low to make capital for new domestic enterprise available at attractive rates, while maintaining the rate for external purposes at a level sufficiently high to protect the national gold reserves.

Nowadays many gold movements in and out of the Bank of England reserve have no reference whatsoever to the nation's credit and currency position. A large addition to the Bank's stocks of the metal may represent the deposit for safe-keeping of part of a foreign Central Bank's metallic reserves, while a large decrease may be due to the withdrawal of part of the London balances of foreign banking institutions. Moreover, the inflow of, say, £1,000,000 may cause an addition of some £5,000,000 or £6,000,000 to the volume

of the nation's credit, while an outflow of similar amount may cause a like contraction.

The suggestion, therefore, seems reasonable that movements of gold should not be allowed in the future to influence rates of interest in this country as radically as they have in the past, and so impose on an already burdened industrial machine extra difficulties in the form of restricted credit, fluctuating financial charges and marked uncertainty. The gold standard is unquestionably the best means of currency control of which the world has yet had experience, but it is necessary that it should not be allowed to get out of hand. A nation should be in a position effectively to regulate her chosen currency basis and should not have to submit to control by that basis. The gold standard should be the servant and not the master of the commercial machine, and monetary difficulties are likely to continue unless and until some more rational means of currency regulation is achieved.

Admittedly, the problem is one of extreme difficulty. The elaboration of two distinct monetary policies—internal and external—is a matter which would probably entail many years of experiment before it could be brought to anything like perfection. But it is quite obviously not insuperable, and there is little doubt that the solution of our present monetary difficulties lies in some such direction.

Our conclusion is, therefore, that any radical departure from the principles underlying our general policy with a view to increasing the basis of credit must be undesirable unless any marked rise in prices can be obviated and unless some plan is at the same time implemented for safeguarding the nation's international gold position and ensuring the stability of the foreign exchanges. But, subject to such safeguards, it is felt that the stimulus given to industry by increasing the purchasing power in the hands of the community would not only directly encourage productive activity but would also greatly facilitate re-organisation. Moreover, reconstruction of industry must in itself stimulate demand by making possible a reduction in the costs of manufacture and consequently of prices, with beneficial effect on the export trades. The reduction of prices would not only offset any

tendency to inflation, provided credit expansion was kept within strict bounds, but would also, by increasing demand, give further impetus to all-round improvement through increasing the number of workers employed. It is submitted, therefore, that, by an extension of credit facilities for aiding schemes of reconstruction, fostering new industries and stimulating demand, British banking can materially assist in the restoration of prosperity to the country at large.

Closer contact and greater co-operation between the world's Central Banks would unquestionably smooth the path, and the recent establishment of the Bank for International Settlements seems pregnant with possibilities in this direction. As long ago as 1922, the International Economic Conference at Genoa resolved, among other things, that credit should be regulated "not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold." There is hope that the growing measure of co-operation between the leading Central Banks will ultimately achieve this regulation and so bring about considerable economies in the use of gold, with beneficial effects on price-levels and world conditions generally. Britain, especially, stands to gain immeasurably from such developments, not only because of the particularly vulnerable nature of her position in the world's financial economy, but also because her industrial and commercial machine would be freed from its present undoubted dependence on American monetary policy. The unbalanced and selfish accumulation of gold in the United States, out of all proportion to the needs of that country, is without doubt one of the bedrock causes of recent monetary disturbances. It constitutes a relentless grip around the throat of British industry, and it is high time our leaders woke up to that fact.

The Spirit of Britain still Lives.

Although the story told in the foregoing pages has been a somewhat melancholy one, it has, of course, been our task to reveal what is wrong with British industry and to say little of what is right with it. Actually, our industry has made

a great deal of progress, and, as Professor Henry Clay has pointed out,[1] it is only when the difficulties are realised that the post-War achievements of British industry can be appreciated. In the first place, this country has preserved a sense of responsibility towards the rest of the world. It has not looked at everything from the standpoint of the narrowest national self-interest. It has co-operated in every effort to restore the world to normal economic working. It led the way back to sound currencies and stable exchanges. It has made great sacrifices in order to settle the disturbing questions of inter-Allied Debts and Reparations. It has not followed the general fashion of erecting new and insuperable barriers to trade, and, having restored the gold standard, has not upset its working by taking a great part in the scramble for gold or hoarding unnecessary gold when it has got it. British industry has shown remarkable adaptability and resilience in restoring hundreds of thousands of war-workers to normal peace-time employment.

"England is exceptional," said Professor Clay, "not in the depression of its textile and heavy industries, but only in the extent of its dependence on them. By comparison with other countries we have not done so badly. Cotton is depressed; it has lost ground in world markets; but Lancashire still exports as great a value of cotton manufactures as all the other cotton-manufacturing countries put together. Shipbuilding is depressed, with an unemployment percentage that baffles local administrators of the shipbuilding areas, but it continues to do about half the tonnage of the whole world without the aid of subsidies or other Government assistance. The coal industry has reduced its cost by more than a quarter in the last few years. Even more direct evidence of the vitality of British industry is the growth of new industries. The rubber industry has grown out of recognition; the electrical industries have developed enormously; cement has been re-organised, and new industries have grown round artificial silk, stainless steel, asbestos and some non-ferrous metals. And the new

[1] In an address to the Advertising Convention, House of Commons, 8.11.28.

industries have an advantage over the older-established industries because they have the newest methods of organisation; they are not hampered by vested interests and obsolete traditions."

Such progress has been possible because Britain is still blessed with a vast wealth of technical skill among her workers, considerable organising ability among her employers, and a degree of inventiveness, courage and resource which is unequalled in the world, and which, if properly exploited, should without difficulty bring the nation once again into the path of prosperity. Mr. Churchill's remarks [1] in November, 1928, are still true: "This small, overcrowded and over-burdened but still unconquered island has actually found in the last four years as many new jobs for British men and women as all the resources of State-aided emigration have been able to provide throughout the whole British Empire. Although our pre-eminence in exports is declining, we still, nevertheless, export twice as much per head of the population of manufactures as any other great country in the world. And apart from population we actually export more manufactures than any other country, however numerous, in the world.

"The savings of our people are still steadily increasing, even in these hard times. The investing power of the nation both at home and abroad is still enormous and still increasing. Many of our leading industries are putting themselves in a far better position to meet the stress of modern competition. Our finances are sound. Our credit is unimpaired. The relief for our basic industries which we have long planned is now rapidly coming into action. The period of paying and accumulating a fund is nearly over. The period of aiding and stimulating industry is at hand.

"When we hear sometimes that in the modern world we shall be dwarfed and outclassed, let us in the end remember that we do not stand alone. Although we can see giants growing up all around us, the Commonwealth of Nations of the British Empire is actually and potentially the greatest

[1] Reply to the Labour Amendment to the Address, House of Commons, 8.11.28.

giant of all, and, by settling those vast and mighty lands which owe allegiance to the Crown with the British race, and by fostering the ties of Imperial commerce and mutual interdependence between the different parts of the Empire by every approved method possible, we shall ensure a safe and honourable eminence in the world, however large it may have grown."

Happily, the spirit of Britain still lives, and though it were foolish to minimise the seriousness of her present position, there is every reason to hope that her difficulties will be overcome as triumphantly to-day as they have been in the past.

APPENDIX I

STATISTICS OF BANKING, FINANCE, TRADE AND UMEMPLOYMENT

The following Tables are reproduced by courtesy of the London and Cambridge Economic Service.

PRICES AND WAGES. U.S.A. PRICES.

	Wholesale.								Retail.		Wages.	Bureau of Labor.		
	Bar Silver (Cash).	Board of Trade Index-Nos.			*Statist* (Sauerbeck) Index-Nos.				M. of Labour.		New Index of Average Weekly Wages.	Wholesale Index, General.	Retail Index (Food).	Cost of Living, all Items.
		General.	Food.	Materials, etc.	Food.		Raw Materials.	Total.	Cost of Living.	Food.				
	d. per oz.	%	%	%	%	%	%	%	%	%	%	%	%	%
1924 Average	34·0	100	100	100	100	•	100	100	100	100	100†	100	100	100
1925														
1st Qr. Average	32·2	101·6	105·6	99·4	105	*104*	101	103	101	103	100·5	100 5	101 5	
2nd " "	31·4	96·0	100·6	93·6	97	*97*	96	97	99	98	101	101	101	102½
3rd " "	32·4	93·9	98·3	91·6	96	*96*	96	97	100	100	100·5	100	110	
4th " "	32·3	92·0	97·2	89·2	93	*94*	95	95	101	101	100·5	100	113	101¾
1926														
1st Qr. Average	31·0	88·6	92·8	86·3	91	*90*	92	92	98	96	100·5	101	111	
2nd " "	30·2	87·2	93·1	84·1	92	*91*	89	90	96	94	100·5	102	110	102½
3rd " "	29·1	90·2	92·5	89·0	93	*97*	90	91	98	95	100	101	107	
4th " "	25·2	90·4	93·9	88·5	90	*92*	94	92	101	99	100·5	100	111	103
1927														
Jan.	25·5	86·4	92·3	83·3	90	*90*	88	89	98	96	101	98 5	109	
Feb.	26·4	85·8	91·6	82·7	89	*89*	89	89	98	95	101	98	107	
March	25·4	84·6	88·4	82·6	89	*88*	88	89	94	91	101	98	109	
April	26·1	84·2	89·1	81·5	91	*89*	87	89	94	90	101	95 5	105	
May	26·0	84·9	91·9	81·3	92	*91*	87	89	93	90	100·5	95 5	106 5	
June	26·3	85·3	93·9	80·9	90	*89*	87	89	95	93	100·5	95 5	109	101
July	25·9	84·9	92·4	81·1	87	*86*	88	88	94	92	100	96	105	
Aug.	25·1	84·8	90·9	81·7	88	*88*	89	88	94	92	101	97	101	
Sept.	25·6	85·5	92·2	82·1	86	*87*	88	87	95	95	101	98	105·5	
Oct.	25·7	85·1	91·7	81·7	83	*84*	89	87	97	96	100·5	99	107	
Nov.	26·6	84·9	91·4	81·6	85	*87*	89	87	97	96	100·5	99	107	
Dec.	26·8	84·5	90·8	81·1	86	*87*	88	87	96	95	100·5	99	107	100·5
1928														
Jan.	26·4	85·0	92·1	81·3	86	*86*	87	87	95	93	100·5	98	106	
Feb.	26·3	84·3	91·1	80·9	89	*88*	86	87	94	91	100	98	101	
March	26·3	84·6	91·4	81·1	93	*92*	86	89	94	91	100	98	103 5	
April	26·2	86·1	95·4	81·3	94	*93*	88	90	94	90	100	99	101	
May	27·4	86·4	95·8	81·6	97	*96*	86	91	94	92	100	100 5	105·5	
June	27·5	85·8	94·7	81·3	92	*91*	86	88	94	92	100	99·5	105	99·5

July . . .	27·2	84·9	91·9	81·3	88	87	85	87	94	92	100	100	105	
Aug. . . .	27·3	83·8	90·7	80·3	85	86	84	85	94	92	99·5	101	106	
Sept. . . .	26·5	82·8	88·7	79·8	84	84	84	84	95	92	99·5	102	108	
Oct. . . .	26·8	83·1	89·2	79·9	84	85	84	84	95	93	99·5	106	107	
Nov. . . .	26·7	83·0	89·3	79·7	85	86	85	85	96	94	99·5	99	108	
Dec. . . .	26·3	83·1	89·1	80·0	85	86	84	85	95	93	99·5	99	107	100
1929														
Jan. . . .	26·4	83·2	88·7	80·3	85	85	84	84	94	91·5	99·5	99	106	
Feb. . . .	25·8	83·3	89·4	80·0	87	87	86	86	95	92	99·5	98·5	106	
March . .	26·0	84·4	90·3	81·2	86	85	87	87	92·5	88	99·5	99·5	105	
April . . .	25·9	83·4	88·5	80·7	86	85	82	84	92	87·5	99·5	98·5	104	
May . . .	25·3	81·7	86·3	79·3	82·5	81·5	80·5	81	91·5	86	99·5	97·5	105	
June . . .	24·3	81·6	86·2	79·1	83·5	82·5	79·5	81	92	87·5	99·5	98·5	106	99·5
July . . .	24·2	82·7	89·4	79·2	86	85	80·5	83	93	90	99·5	100	109	
Aug. . . .	24·2	81·8	86·8	79·1	84·5	85	80	82	93·5	90·5	99·5	99·5	110	
Sept. . . .	23·8	81·7	85·8	79·5	83	84	79·5	81	94·5	91·5	99	99·5	110	
Oct. . . .	23·0	81·9	87·2	79·1	82·5	83·5	78	80	95·5	93·5	99	98	110	
Nov. . . .	22·6	80·6	85·6	78·0	80	81·5	76	78	95·5	93·5	99	96	109·5	
Dec. . . .	22·6	79·7	84·6	77·1	81	82	76	78·5	95	92‖	99	96	108	100
1930														
Jan. . . .	21·1	78·8	83·4	76·3	80·5	80·5	74	75	94	90·5	99	95·2	106·5	
Feb. . . .	20·2	76·9	81·0	74·7	79	79	73	75	92	88	98·5	93·9	105	
March . .	19·2	74·9	77·7	73·4	76	75·5	72	74	90	84	98·5	92·6	103	
April . . .	19·5	74·4	77·6	72·6	77	76	70	73	89	82	98·5	92·5	104	
May . . .	19·2	73·3	76·5	71·5	73	72	69	71	88	81	98·25	90·8	103	
June . . .	16·3	72·6	76·6	70·4	72·5	71·5	66·5	69	88·5	83	98·25	88·5	101	97
July . . .	16·0	71·7	76·4	69·2	72	71	65	68	89·5	84·5	98·25	85·6	99	
Aug. . . .	16·3	70·9	75·9	68·2	69·5	70	64	66	89·5	84·5	98·25	85·6		
Sept. . . .	16·8	69·5	74·4	67·0	70	70·5	62	65	89	84	98·25	85·8		
Oct. . . .	16·7										98·25			

* Normal seasonal variation removed. † December, 1924. ‡ No rent restriction. § June. ‖ December.

Price of Silver.—Average (cash) price of bar silver for week ending 15th of month.—*Economist.*
Board of Trade Index.—Geometric Mean of Wholesale Prices (averages for month) of 150 commodities as percentage of 1924 average.—*Board of Trade Journal.*
Statist (*Sauerbeck*) *Indices.*—Average wholesale prices of 19 food-stuffs and 26 raw materials on last day of month as percentage of average for 1924.—*Statist.*
Cost-of-Living Index.—Ministry of Labour's index showing movement since 1924 in cost of maintaining unchanged the standard of living prevalent in working-class households before the War. For 1st of month, but placed against previous month—*e.g.* reading for March 1st is shown against February—to facilitate comparison with *Statist* index.
Retail Food Prices.—As above, for food only.

T

FINANCE.

	Bank Clearings.				Other Banking.								Money.			
	London Bankers' Clearing House.			Provincial.	Bank of England.		9 Clearing Banks.									
	Town.		Country.	11 Towns.	Private Deposits.	Bank and Currency Notes.†	Deposits.	Discounts.	Advances.	Investments.‡	Ratio of Cash to Deposits.	Ratio of Advances to Deposits.	Treasury Bills.	Short Money Index.	Day-to-day Rate.	3 months' Rate.
	£Mn.		£Mn.	£Mn.	£Mn.	£Mn.	£Mn.	£Mn.	£Mn.	£Mn.	%	%	£Mn.		%	%
1924 Average .	2070	*	226	147	109	390	1632	212	791	324	11·7	48·5	601	100	2·13	3·45
1925																
1st Qr. Av.	2230	2130	235	150	114	382	1634	227	827	289	11·8	50·6	611	116	3·10	4·03
2nd "	2140	2080	235	140	107	386	1609	199	849	273	11·9	52·7	573	138	3·96	4·16
3rd "	1950	2100	221	135	112	385	1619	231	841	257	11·9	52·0	615	125	3·41	4·08
4th "	2110	2230	234	146	110	379	1631	237	841	261	11·8	51·5	641	119	3·42	4·01
1926																
1st Qr. Av.	2070	1970	231	141	107	371	1610	209	866	255	11·7	53·8	611	140	4·15	4·54
2nd "	2100	2040	219	123	103	381	1600	195	875	244	11·9	54·6	578	137	3·92	4·37
3rd "	1990	2150	205	117	108	374	1634	226	874	247	11·8	53·5	624	137	3·95	4·40
4th "	2150	2250	226	128	104	371	1662	225	887	251	11·8	53·4	667	140	4·02	4·63
1927																
Jan. . .	2285	2180	240	135	112	368	1694	214	898	252	11·6	53·0	675	133	3·79	4·23
Feb. . .	2190	2070	225	134	102	359	1653	220	902	243	11·6	54·6	649	135	3·85	4·14
March .	2210	2100	289	136	102	365	1632	196	910	239	11·5	55·8	603	138	4·08	4·33
April . .	2380	2310	244	132	97	380	1612	196	912	236	11·7	55·6	568	136	3·92	4·23
May . .	2170	2170	240	134	100	373	1650	197	913	237	11·6	55·3	569	120	3·63	3·62
June . .	2210	2090	229	126	98	378	1685	207	915	237	11·8	54·3	592	125	3·50	4·35
July . .	2040	2160	239	135	100	377	1682	216	919	237	11·5	54·6	593	125	3·47	4·34
Aug. . .	1940	2220	219	129	100	376	1669	205	918	236	11·5	55·0	617	128	3·85	4·34
Sept. . .	2140	2230	213	123	100	374	1668	211	920	234	11·5	55·2	617	126	3·67	4·32
Oct. . .	2260	2340	242	144	102	376	1710	232	918	238	11·4	53·7	641	125	3·60	4·31
Nov. . .	2280	2360	236	137	99	373	1694	233	915	236	11·3	54·0	648	125	3·56	4·34
Dec. . .	2190	2330	236	138	102	378	1729	235	914	234	11·7	52·9	664	125	3·60	4·31
1928																
Jan. . .	2370	2270	247	140	110	375	1717	257	922	245	11·3	52·8	642	124	3·40	4·29
Feb. . .	2290	2170	235	137	101	364	1698	224	918	244	11·0	54·1	597	124	3·56	4·20
March .	2300	2180	229	137	104	367	1672	196	930	235	11·1	55·6	542	126	3·79	4·17
April . .	2440	2370	252	143	102	376	1690	197	935	233	11·1	55·3	520	124	3·75	4·03
May . .	2400	2410	216	134	95	372	1688	199	937	232	11·1	55·5	535	123	3·63	4·06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

July . .	2190	*2320*	246	132	105	376	1749	256	933	230	11·0	53·3	505	120	[illegible]	[illegible]
Aug. . .	2230	*2540*	223	116	103	374	1732	254	932	237	11·1	53·8	609	124	3·48	4·28
Sept. . .	2300	*2390*	211	117	99	374	1732	244	930	244	11·2	52·7	622	126	3·69	4·25
Oct. . .	2350	*2430*	244	130	100	369	1753	248	939	243	11·0	53·6	654	130	4·06	4·33
Nov. . .	2330	*2410*	236	125	99	367	1752	248	942	241	11·0	53·8	703	125	3·52	4·38
Dec. . .	2320	*2470*	245	140	67+37	375	1806	259	946	244	11·3	52·4	779	123	3·25	4·36
1929					§											
Jan. . .	2570	*2460*	250	131	68+37	361	1809	274	956	250	10·9	52·9	780	125	3·54	4·31
Feb. . .	2440	*2310*	236	138	58+36	353	1777	260	968	246	10·5	51·5	774	162	5·06	5·23
March .	2230	*2120*	237	136	63+38	355	1739	214	980	214	10·6	56·4	712	160	4·58	5·38
April . .	2210	*2150*	253	127	61+36	359	1743	191	987	214	10·8	56·6	707	158	4·44	5·27
May . .	2250	*2250*	241	118	61+36	363	1732	195	977	244	10·9	56·4	702	159	4·69	5·23
June . .	2560	*2430*	235	122	61+36	362	1770	216	978	244	10·9	55·3	756	156	4·23	5·28
July . .	2370	*2510*	248	129	63+36	367	1778	234	985	242	10·7	55·4	757	160	4·73	5·33
Aug. . .	2250	*2560*	226	112	65+36	371	1759	225	980	242	10·7	55·7	776	156	4·13	5·47
Sept. . .	2410	*2510*	224	114	63+36	362	1754	222	971	242	10·9	55·4	772	157	4·21	5·49
Oct. . .	2410	*2530*	248	123	70+37	360	1765	227	971	241	10·7	55·0	787	189	5·27	6·22
Nov. . .	2450	*2530*	242	123	55+42	358	1751	231	970	235	10·6	55·4	792	177	5·38	5·66
Dec. . .	2170	*2320*	248	127	58+36	365	1773	227	971	236	11·3	54·8	805	151	4·64	4·80
1930																
Jan. . .	2340	*2240*	250	119	64+36	352	1767	243	970	233	10·9	54·9	758	136	4·04	4·11
Feb. . .	2400	*2280*	236	121	59+35	348	1714	218	973	229	10·6	56·8	678	125	3·85	3·96
March .	2770	*2630*	234	120	59+36	350	1682	181	976	225	10·8	58·0	615	104	3·35	3·03
April . .	2340	*2280*	249	114	66+36	361	1712	207	970	225	10·9	56·7	571	82	2·23	2·49
May . .	2360	*2360*	235	104	58+36	356	1742	246	957	231	10·7	54·9	585	68	1·94	2·14
June . .	2430	*2300*	228	102	59+35	364	1788	273	958	233	10·6	53·6	618	71	2·13	2·33
July . .	2150	*2280*	233	103	70+36	364	1794	284	952	241	10·7	53·1	633	69	1·88	2·37
Aug. . .	2100	*2400*	224	95	66+34	367	1767	279	936	250	10·6	53·0	648	69	1·96	2·29
Sept. . .	2340	*2430*	207	89	65+34	358	1764	284	927	255	10·6	52·6	649	65	1·69	2·09
Oct. . .					66+36	357							656	65	1·65	2·11

* Normal seasonal change removed. † Issues amalgamated Nov. 22, 1928. ‡ Exclusive of Investments in Affiliated Banks.
§ From Dec. 1928 first figure *Bankers*, second figure *Others*.

Bank Clearings.—Total of *Town Clearings* (*i.e.* excluding Metropolitan) of London Bankers' Clearing House for three weeks covering two Stock Exchange settlement days, Consols settlement day, and 4th of following month. *Country Clearings* of London Bankers' Clearing House and *Provincial Clearings* for 11 towns—proportionate totals for 24 working days.

Bank of England.—*Deposits*, other than public, 11th–17th of month.
Bank Notes and Currency Notes in circulation 11th–17th of month. Issues amalgamated, November 22nd, 1928.

Principal Banks.—"*Current, Deposit and other accounts,*" *etc.* Averages for the month of 9 clearing banks (*i.e.* excluding the National Bank, Ltd.).—*Monthly Review of the Midland Bank, Ltd.*

Treasury Bills.—Total outstanding in middle of month (11th–17th).

Short Money Index.—Average of Bank Rate, Bankers' Deposit Rate, Three Months' Bill Rate and day-to-day rate for week ending 15th of month, expressed as percentage of 1924 average.
Day-to-Day Rate and Three Months' Rate. Averages for week ending 15th of month.

TRADE AND OUTPUT

	Total Imports (Values). Food, Drink and Tobacco. £Mn.		Raw Materials. £Mn.		Manufactures. £Mn.		Total (including Miscellaneous). £Mn.		Total Net Imports £Mn.
1924 Average	47·6	*	33·3	*	25·0	*	106·4	*	91·8
1925 1st Qr. Av.	47·9	51·2	42·0	38·1	26·8	26·4	117·3	116·2	104·0
2nd "	45·4	47·0	31·3	33·7	31·3	31·4	108·6	112·6	95·4
3rd "	44·7	43·8	27·9	34·3	23·1	23·3	96·1	101·9	84·3
4th "	52·8	49·2	40·6	35·6	25·4	25·7	119·2	110·8	105·4
1926 1st Qr. Av.	46·1	49·1	35·0	31·8	25·6	25·1	107·1	106·4	91·8
2nd "	40·8	42·3	28·4	30·6	24·2	24·2	93·7	97·4	83·9
3rd "	43·8	43·0	30·5	36·1	26·3	26·5	101·0	106·0	92·4
4th "	46·2	42·9	37·0	33·5	28·9	29·2	112·5	106·1	101·6
1927 Jan.	44·2	45·0	39·5	33·1	29·6	29·9	113·6	108·3	103·7
Feb.	38·2	45·0	29·5	28·2	25·6	26·4	93·9	100·2	83·0
March	46·9	47·9	35·2	34·7	30·9	28·1	113·5	111·1	102·7
April	41·3	43·5	30·7	31·3	28·4	28·0	100·8	103·2	88·8
May	41·9	43·5	28·2	30·0	25·9	25·5	96·4	99·4	84·0
June	46·9	47·6	27·0	31·2	25·1	25·8	99·3	104·9	88·7
July	41·1	40·5	26·6	30·8	25·3	25·3	93·4	97·0	83·7
Aug.	42·6	42·1	22·3	28·1	24·7	25·1	90·1	95·8	81·3
Sept.	48·0	46·8	26·4	33·7	26·5	26·7	101·4	107·6	93·4
Oct.	48·7	44·5	28·4	27·9	27·6	26·9	105·0	99·6	95·5
Nov.	52·1	48·4	28·2	24·2	26·7	27·5	107·4	100·5	96·9
Dec.	48·0	45·3	30·0	24·5	26·4	27·1	105·4	97·9	95·1
1928 Jan.	43·4	44·2	31·1	25·3	25·6	25·9	100·4	95·7	90·1
Feb.	41·7	47·4	31·1	28·6	25·3	25·3	98·8	102·0	87·2
March	47·0	47·9	34·0	33·5	29·2	26·5	110·5	108·2	99·2
April	41·0	43·1	28·5	29·1	26·8	26·4	96·8	99·1	85·8
May	42·7	44·3	29·9	31·8	25·7	25·4	99·4	102·6	87·6
June	45·8	46·6	26·5	30·6	26·2	26·9	99·4	105·0	87·9

	Exports of U.K. Goods (Values). Food, Drink and Tobacco. £Mn.		Raw Materials. £Mn.		Manufactures. £Mn.		Total (including Miscellaneous). £Mn.		Output. Coal. Tons Mn.	Pig Iron. Tons 000	Steel. Tons 000	Ship-building. Tonnage Commenced † Tons 000
1924 Average	4·7	*	8·9	*	51·6	*	66·8	*	21·2	520	641	263
1925 1st Qr. Av.	4·7	5·7	8·1	8·2	55·3	54·4	69·6	69·9	21·3	537	603	202
2nd "	4·1	4·7	6·9	7·1	49·0	51·6	61·3	64·7	19·2	509	589	190
3rd "	4·5	4·1	6·1	6·1	50·0	48·4	62·2	60·1	17·8	422	524	261
4th "	5·0	4·2	7·0	6·7	51·2	51·0	64·6	63·4	19·7	443	597	161
1926 1st Qr. Av.	4·2	5·1	6·7	6·9	50·9	50·2	63·2	63·5	21·5	499	665	193
2nd "	3·6	4·2	3·8	4·0	40·9	43·1	49·5	52·5	—‡	207	245	108
3rd "	4·3	3·9	2·0	2·0	45·0	43·7	52·6	50·8	—	13	56	63
4th "	4·6	4·0	3·2	3·2	42·5	42·3	52·0	51·1	—	38	101	152
1927 Jan.	4·1	4·9	6·6	6·7	43·7	41·9	55·4	54·5	20·7	393	684	
Feb.	3·8	4·9	6·2	6·5	41·6	43·1	52·9	55·8	21·4	571	827	580
March	4·3	5·0	7·3	7·3	49·1	47·2	62·1	60·9	21·1	607	836	
April	3·6	4·4	6·3	6·7	41·5	44·2	52·6	56·5	20·6§	635	870	
May	4·3	4·9	7·4	7·0	50·3	51·5	63·3	64·7	20·4	650	811	437
June	3·6	4·1	6·3	6·6	41·9	48·2	56·0	60·1	20·0§	608	715	
July	4·3	4·0	5·8	5·7	44·8	43·0	56·1	53·9	18·9	583	643	
Aug.	4·4	4·0	6·0	6·1	47·7	45·8	59·4	57·2	19·4§	538	590	370
Sept.	4·7	4·0	5·9	5·8	48·8	48·2	60·6	59·3	19·5	552	712	
Oct.	5·0	4·0	6·2	5·7	48·7	46·2	61·2	57·2	19·8	539	655	
Nov.	5·4	4·2	6·6	6·5	57·2	57·6	70·6	60·7	19·6	538	641	377
Dec.	4·7	4·7	5·8	5·8	45·8	47·4	58·8	60·4	20·6§	505	591	
1928 Jan.	4·3	5·1	5·8	5·8	48·3	46·3	59·7	58·5	20·7	506	574	
Feb.	4·5	5·6	6·0	6·0	45·5	45·5	57·2	55·3	20·1	532	731	342
March	4·2	4·9	6·3	6·3	53·4	51·4	65·0	63·7	20·2	535	712	
April	3·8	4·7	5·3	5·7	45·0	47·9	55·3	59·5	19·3§	526	675	
May	4·0	4·6	6·2	5·9	46·4	47·6	58·6	60·1	19·3	531	690	279
June	3·8	4·2	6·1	6·4	49·0	51·5	59·5	63·7	[illegible]	526	66[illegible]	

July	43·8	43·1	24·0	27·7	25·5	25·5	95·5	98·5	87·0	4·4	4·1	5·4	5·3	49·2	47·3	60·9	58·6	16·9	486	611	
Aug.	44·6	44·1	24·3	30·5	27·4	27·8	97·7	103·8	88·9	4·8	4·4	5·6	5·6	50·1	48·2	62·2	59·9	17·8§	469	591	245
Sept.	40·3	39·2	20·6	26·2	25·6	25·8	87·7	92·4	80·8	4·8	4·1	4·9	4·8	45·2	44·7	56·6	55·3	18·8	470	702	
Oct.	48·2	44·0	24·2	23·8	29·1	28·4	102·7	97·4	93·8	5·3	4·2	6·2	5·7	50·8	48·1	61·3	60·0	19·0	491	665	
Nov.	48·3	44·9	29·9	25·6	27·3	28·2	106·8	99·9	96·0	5·6	4·3	6·1	6·0	49·9	50·3	63·8	62·8	19·2	508	699	432
Dec.	45·3	42·8	30·9	25·2	24·4	25·1	101·5	94·0	92·4	4·6	4·6	6·3	6·3	46·8	48·5	60·4	62·1	20·5§	492	699	
1929																					
Jan.	49·6	50·5	39·1	31·9	26·8	27·1	116·5	110·5	106·7	4·2	5·0	6·6	6·7	53·8	51·7	66·9	65·7	21·0	509	673	
Feb.	40·0	47·0	27·0	25·7	23·1	23·9	90·9	97·3	80·5	4·0	5·1	5·6	5·8	44·3	45·9	55·7	58·6	21·5	520	775	362
March	42·1	42·9	28·5	28·1	27·2	24·7	98·6	96·5	88·6	3·8	4·4	6·6	6·6	47·0	45·2	58·6	57·4	22·2§	533	841	
April	42·6	44·9	30·9	31·5	30·2	29·7	104·1	106·5	93·8	5·0	6·0	6·8	7·3	47·1	50·2	60·2	64·8	20·8	571	773	
May	41·2	45·9	29·2	31·1	29·2	28·9	103·4	106·8	93·0	4·6	5·2	7·8	7·4	53·4	54·7	67·4	68·9	20·3§	591	773	428
June	39·6	40·3	24·5	28·3	26·4	27·1	91·5	96·7	81·9	3·9	4·4	6·1	6·4	38·4	41·1	49·9	53·5	19·9	614	812	
July	42·2	41·6	22·9	26·5	27·4	27·5	93·6	96·6	85·6	4·7	4·4	6·9	6·7	53·2	51·1	66·5	63·9	18·9	607	708	
Aug.	45·7	45·1	24·7	31·1	29·5	30·0	101·0	107·3	92·0	4·5	4·1	6·0	6·1	50·8	48·8	63·0	60·7	20·3§	616	705	360
Sept.	45·1	43·9	24·2	30·9	28·4	28·6	98·4	104·1	91·6	4·8	4·1	6·5	6·4	42·2	41·7	55·1	53·9	20·4	620	811	
Oct.	51·2	46·8	27·3	26·8	30·2	29·5	110·3	104·7	101·1	5·4	4·3	7·1	6·5	50·3	47·7	64·6	60·3	20·6	622	783	
Nov.	48·5	45·0	30·0	25·7	28·2	29·0	108·2	101·2	100·0	5·7	4·4	6·9	6·8	48·6	49·0	63·1	62·1	21·3	589	763	499
Dec.	46·8	44·1	31·2	25·5	27·8	28·6	106·6	99·0	98·6	4·9	4·9	6·2	6·2	44·6	46·2	58·4	60·0	20·9‖	581	661	
1930																					
Jan.	42·9	43·7	30·1	24·6	28·0	28·2	101·9	97·4	93·7	4·6	5·5	6·9	7·0	44·7	42·9	58·3	57·5	22·1	587	679	
Feb.	37·3	43·8	24·0	22·9	25·8	26·6	88·2	94·4	79·6	3·7	4·7	5·8	6·1	41·2	42·6	51·9	54·6	22·1	607	776	427
March	40·0	40·8	24·1	23·8	28·1	25·6	93·4	91·4	85·8	4·0	4·7	6·0	6·0	42·5	40·9	53·9	53·0	21·5	601	773	
April	36·7	38·7	20·7	21·0	25·6	25·3	83·9	85·9	76·1	3·6	4·4	5·4	5·8	36·7	39·1	46·9	50·5	19·9§	578	696	
May	39·6	41·1	23·1	24·6	27·7	27·4	91·0	93·7	82·0	3·8	4·3	5·8	5·6	39·8	40·8	51·0	52·3	19·3	555	621	230
June	37·7	38·3	20·4	23·6	24·5	25·1	83·4	87·8	75·6	3·2	3·6	4·7	4·9	33·8	36·2	42·8	45·8	18·0§	526	600	
July	39·2	38·6	19·1	22·1	26·0	26·0	85·2	87·6	78·6	4·4	4·1	5·2	5·0	39·7	38·1	50·7	48·6	16·9	439	547	
Aug.	37·2	36·7	17·5	22·0	24·2	24·6	79·9	84·3	73·6	4·0	3·6	4·4	4·4	33·1	31·8	42·8	41·1	18·6§	376	441	161
Sept.	36·7	35·7	16·5	21·1	24·6	24·8	78·7	82·5	73·3	4·2	3·6	5·0	4·9	32·0	31·7	42·7	41·7	18·2	397	532	

* Normal seasonal change removed.
§ 4 Weeks, excluding holiday week.
† Total for Qr.
‡ Trade dispute.
‖ Excludes Christmas week, but includes New Year.

Imports and Exports.—Declared values of imports (c.i.f.) into U.K., and exports (f.o.b.) of U.K. produce and manufacture. Net Imports = Total imports less exports of imported goods.—*Monthly Accounts of Trade and Navigation.*

Output—Coal.—Total for four weeks ending approximately at end of month.—*Board of Trade Journal.*

Pig Iron, Steel Ingots and Castings.—Output for standard four-week month, based uponmonthly figures issued by the *National Federation of Iron and Steel Manufacturers.*

Shipbuilding.—Tonnage of ships over 100 tons (excluding warships) commenced during the quarter.—*Lloyd's Register of Shipping.*

UNEMPLOYMENT.

INSURED PERSONS UNEMPLOYED.* (Great Britain and North Ireland.)

		Males.								Females.	
		Total.	Coal.	Iron and Steel.	Engineering.	Shipbuilding.	Building and Construction.	Cotton and Wool.	Other Industries.†	Total.	Cotton and Wool.
		000	000	000	000	000	000	000	000	000	000
1924	Average	941	72	52	116	78	99	35	344	263	62
1925	1st Qr. Av.	1034	125	59	100	83	108	27	371	286	45
	2nd ,,	1058	219	62	95	81	77	31	351	273	60
	3rd ,,	1107	250	64	96	85	83	39	355	290	73
	4th ,,	1063	191	58	95	90	110	26	345	241	42
1926	1st Qr. Av.	1003	119	50	97	88	117	31	348	243	49
	2nd ,,	1186	109	108	121	90	94	59	454	335	106
	3rd ,,	1314	108	132	135	96	109	69	511	376	130
	4th ,,	1259	111	108	134	100	139	49	460	307	86
1927	Jan.	1180	200	48	109	83	160	37	386	272	60
	Feb.	1075	198	40	96	71	136	28	355	240	41
	March	991	205	36	86	65	106	23	327	197	31
	April	951	218	41	81	58	90	25	307	182	39
	May	880	210	38	73	52	78	23	293	170	38
	June	898	232	39	70	51	79	24	287	172	40
	July	925	257	41	66	48	85	28	290	189	49
	Aug.	927	243	42	66	49	88	29	297	203	52
	Sept.	935	228	41	70	47	104	29	297	191	44
	Oct.	963	223	46	70	45	125	31	298	193	49
	Nov.	1003	221	50	70	47	144	34	307	207	54
	Dec.	1005	206	52	67	46	171	29	305	189	45
1928	Jan.	1043	210	45	67	43	177	29	331	218	47
	Feb.	1026	215	43	67	44	157	26	331	202	41
	March	944	199	45	66	46	122	26	307	183	42
	April	945	208	47	68	48	114	27	304	183	46
	May	979	245	44	66	50	103	28	314	189	49
	June	1053	298	45	66	55	109	35	318	221	66
	July	1122	324	51	67	57	114	40	341	255	81
	Aug.	1114	295	51	72	57	116	44	348	261	83
	Sept.	1089	250	48	72	62	127	43	349	266	70
	Oct.	1148	279	47	70	67	141	39	354	255	71
	Nov.	1189	281	47	74	66	159	37	367	264	66
	Dec.	1088	212	42	70	61	163	34	353	246	60
1929	Jan.	1189	212	43	76	56	206	37	388	277	63
	Feb.	1197	170	42	72	52	252	38	393	257	60
	March	980	147	36	64	50	141	34	350	224	56
	April	960	175	37	64	46	116	39	332	222	63
	May	956	198	37	65	46	104	37	325	221	69
	June	942	203	39	61	46	100	38	315	221	72
	July	947	202	41	61	47	103	40	314	231	78
	Aug.	951	173	40	66	49	108	41	331	247	78
	Sept.	961	162	39	68	51	121	36	335	243	69
	Oct.	1005	165	41	68	51	143	36	339	249	69
	Nov.	1061	153	47	70	49	172	40	356	265	69
	Dec.	1075	156	45	70	48	181	42	359	269	73
1930	Jan.	1173	138	48	79	49	197	56	411	348	104
	Feb.	1209	142	47	85	50	195	63	425	374	121
	March	1267	155	55	91	55	177	67	456	427	135
	April	1301	177	64	98	55	160	71	465	460	151
	May	1357	235	63	100	58	147	85	461	499	185
	June	1396	254	63	107	62	147	91	469	515	202
	July	1519	301	71	114	65	160	102	499	551	213
	Aug.	1546	252	80	125	70	166	105	532	573	217
	Sept.	1605	246	83	137	76	178	103	552	584	207

* Excluding any disqualified for benefit by trade dispute.
† Excludes Commerce, etc.

Unemployment—Insured Persons.—Number of books lodged at Labour Exchanges on or about 25th of month.—*Ministry of Labour Gazette.*

APPENDIX II

THE BANKERS' INDUSTRIAL DEVELOPMENT COMPANY

THE Company was registered as a private company on the 15th April, 1930, with a nominal capital of £6,000,000 in 45 "A" Ordinary shares of £100,000 each and 15 "B" Ordinary shares of £100,000 each. The following is a list of the shareholders as on 16th April, 1930.

"A" ORDINARY SHARES.

BARCLAYS BANK, LTD., 54 Lombard-street, E.C.3, bankers.
BARING BROTHERS & CO., LTD., 8 Bishopsgate, E.C.2, bankers.
A. P. BRANDT AND H. B. BRANDT, 36 Fenchurch-street, E.C.3, merchant bankers. (Messrs. Brandt are partners in Wm. Brandt, Sons & Co.)
E. CLIFTON-BROWN, Founder's-court, E.C., merchant banker. (Mr. Brown is partner in Brown, Shipley & Co.)
N. L. CAMPBELL, Director, Helbert Wagg & Co., Ltd.
DISTRICT BANK, Ltd., 17 Spring-gardens, Manchester, bankers.
ERLANGERS, LTD., 4 Moorgate, E.C.2, bankers.
G. FARRER, 16 Bishopsgate, E.C., banker. (Mr. Farrer is partner in H. S. Lefevre & Co.)
ROBT. FLEMING & CO., 8 Crosby-square, E.C., bankers.
GLYN, MILLS & CO., 67 Lombard-street, E.C., bankers.
GRACE BROTHERS & CO., LTD., 147 Leadenhall-street, E.C., merchant bankers.
GUINNESS, MAHON & CO., 53 Cornhill, E.C.3, bankers.
HAMBROS BANK, LTD., 41 Bishopsgate, E.C., bankers.
HIGGINSON & CO., 80 Lombard-street, E.C.3, merchant bankers.
KLEINWORT, SONS & CO., 20 Fenchurch-street, E.C.3, bankers.
LAZARD BROTHERS & CO., LTD., 11 Old Broad-street, E.C.2, merchant bankers.
LLOYDS BANK, LTD., 71 Lombard-street, E.C., bankers.
MARTINS BANK, LTD., Poultry, E.C.2, bankers.
MIDLAND BANK, LTD., Poultry, E.C.2, bankers.
SAMUEL MONTAGU & CO., 114 Old Broad-street, E.C., bankers.
MORGAN GRENFELL & CO., 23 Great Winchester-street, E.C., merchant bankers.
M. SAMUEL & CO., LTD., Shell House, 25–27 Bishopsgate, E.C., merchant bankers.

NATIONAL PROVINCIAL BANK, LTD., 15 Bishopsgate, E.C.2, bankers.

NORTH OF SCOTLAND BANK, LTD., Aberdeen, bankers.

ROBT. BENSON & CO., LTD., 24 Old Broad-street, E.C., merchant bankers.

L. N. DE ROTHSCHILD AND A. G. DE ROTHSCHILD, New-court, St. Swithin's-lane, E.C., bankers. (Messrs. Rothschild are the two partners of N. M. Rothschild and Sons.)

ROYAL BANK OF SCOTLAND, Edinburgh, bankers.

J. HENRY SCHRODER & CO., 145 Leadenhall-street, E.C., bankers.

SELIGMAN BROTHERS, LTD., 18 Austin Friars, E.C., bankers.

S. JAPHET & CO., LTD., 60 London-wall, E.C., merchant bankers.

STERN BROTHERS, 6 Angel-court, E.C.2, merchant bankers.

BRITISH LINEN BANK, Edinburgh, bankers.

BRITISH OVERSEAS BANK, LTD., 33 Gracechurch-street, E.C., bankers.

BRITISH SHAREHOLDERS TRUST, LTD., 3 Lombard-street, E.C.

CENTRAL MINING AND INVESTMENT CORPORATION, LTD., 1 London-Wall-Buildings, E.C.

CLYDESDALE BANK, LTD., Glasgow, bankers.

COMMERCIAL BANK OF SCOTLAND, LTD., 14 George-street, Edinburgh.

THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND, EDINBURGH.

MANCHESTER AND COUNTY BANK, LTD., 55 King-street, Manchester.

NATIONAL BANK, LTD., 13 Old Broad-street, E.C.

NATIONAL BANK OF SCOTLAND, LTD., 42 St. Andrew's-square, Edinburgh.

UNION BANK OF MANCHESTER, LTD., 17 York-street, Manchester.

UNION BANK OF SCOTLAND, LTD., 110 St. Vincent-street, Glasgow.

WESTMINSTER BANK, LTD., 41 Lothbury, E.C.2.

WILLIAMS DEACON'S BANK, LTD., Mosley-street, Manchester.

(All the above are allotted one share each.)

"B" ORDINARY SHARES.

SECURITIES MANAGEMENT TRUST, LTD., 5 London-Wall-Buildings, E.C.2, financial and industrial advisers, 14.

RT. HON. MONTAGU COLLET NORMAN, Governor of the Bank of England, 1.

When the Company was registered on 15th April, 1930, it was stated that the list of "A" shareholders would include every home bank and financial house of first-rate importance. This claim is substantiated by the foregoing list, which indicates the degree of financial co-operation emanating from the "City" for the assistance of British industry. The names of the

holders of the 45 " A " shares include twenty " joint-stock " banks (eleven English, eight Scottish, and one Anglo-Irish the National Bank) and twenty-five financial houses of various types. These might be roughly classified—though no classification can be regarded as fully satisfactory—as fourteen issuing houses, seven accepting houses or merchant bankers, three investment houses, and one mining finance house.

No insurance companies are included, but within the range selected it is difficult to think of any financial house of first-rate standing which does not figure in the list.

DIRECTORS OF THE COMPANY

(as on 26th April, 1930).

RT. HON. MONTAGU C. NORMAN, Thorpe Lodge, Campden-hill, W.8, Chairman (Governor of the Bank of England);

BARON RUDOLPH BRUNO SCHRODER, 35 Park-street, W.1;

SIR WM. G. GRANET, G.B.E., Sloane House, Church-street, Chelsea, S.W.3 (also alternate for Rt. Hon. M. C. Norman);

A. R. WAGG, 5 The Manor, Davies-street, W.1 (Chairman of Helbert Wagg & Co., Ltd.);

E. R. PEACOCK, 9 Connaught-place, W.2 (Managing Director of Baring Bros. & Co., Ltd.);

C. B. GARDNER, Burton House, Stafford (Manager of Securities Management Trust, Ltd.).

ALTERNATE DIRECTORS.

A. S. PAM, Wormley Bury, Broxbourne, Herts (Director, Hydro-Electric Securities Corporation, Ltd.), alternate for Baron Schroder;

N. L. CAMPBELL, Woodrow High House, Amersham, Bucks (Director, Helbert Wagg and Co., Ltd.), alternate for A. R. Wagg;

M. W. KEEFER, 1 Campden-hill, W.8 (Director, Anglo-Foreign Securities Corporation, Ltd.), alternate for E. R. Peacock.

APPENDIX III

THE following are details of the facilities afforded by the Agricultural Mortgage Corporation, as set forth in leaflets issued by the Corporation and here reproduced by courtesy of its directors.

(1)

AGRICULTURAL CREDITS ACT, 1928 (PART I).

LONG-TERM LOANS.

The Agricultural Mortgage Corporation, Limited, formed under the provisions of the Agricultural Credits Act, 1928, is now prepared to consider applications for long-term loans—

(a) against mortgages of agricultural land, and
(b) in respect of major improvements to agricultural land and buildings.

A.

MORTGAGES OF AGRICULTURAL LAND.

Period and rate of annuity.—Loans for periods not exceeding 60 years are repayable by equal half-yearly instalments of principal and interest combined.

For a 60-year loan the half-yearly payment will be £2 15s. per £100.

This payment will cover interest, repayment of loan and all charges (other than cost of valuation and Stamp Duty on the mortgage).

If a loan were desired for a shorter period, the half-yearly payment would be adjusted accordingly: for instance—

50 years—	£2	17s.	3d.	per £100	half-yearly.
40 „	£3	0s.	11d.	„	„
30 „	£3	7s.	11d.	„	„
20 „	£4	3s.	9d.	„	„

Valuation.—Loans may not exceed two-thirds of the value of the mortgaged property as certified by the Corporation's valuer.

Charges.—No charges will be made in connection with an application other than the cost of valuation and the Stamp Duty on the Mortgage.

Applications must be made through a shareholding Bank on Application Form "A."

B.

Improvements.

Loans will be made to owners for the purposes of the Land Improvement Acts (see note at foot).

Period and rate of annuity.—The maximum statutory period is 40 years, but the period in any given case will be fixed by the Corporation within the period approved by the Ministry.

For a 40-year loan the half-yearly payment will be £3 per £100, whilst for loans for shorter periods the half-yearly payment will be adjusted accordingly.

Conditions.—Loans must be approved by the Ministry, which, in most cases, is bound by Statute to satisfy itself that the proposed improvements will effect a permanent increase in the yearly value of the land in excess of the yearly amount to be charged thereon.

It should be particularly noted that the Ministry has no power to create Improvement Charges to cover the cost of any work commenced before its approval has been given to the plans and specifications.

Charges.—No charges will be made by the Corporation in connection with the application, but the applicant will have to pay the relative incidental charges of the Ministry. The amount of these charges is not large and can, if desired, be included in the advance.

Applications must be made through a shareholding Bank on Application Form " B."

The terms of this Leaflet are subject to modification from time to time.

Note.—Intending borrowers are advised to consult the Manager of one of the branches of a shareholding Bank, who will be glad to supply forms of application, and any further information desired.

The undermentioned Banks are the shareholders of the Agricultural Mortgage Corporation, Limited: Bank of England, Barclays Bank Ltd., District Bank Ltd., Glyn Mills & Co., Lloyds Bank Ltd., Martins Bank Ltd., National Provincial Bank Ltd., Westminster Bank Ltd., Williams Deacon's Bank Ltd., the Manchester and County Bank Ltd.

The purposes for which loans may be granted by the Corporation under the Improvement of Land Acts are as follows:

1. Drainage, including the straightening, widening or deepening of drains, streams and water-courses.
2. Irrigation; warping; reclamation.
3. Embanking or weiring from a river or lake, or from the sea or a tidal water.
4. The erection of groynes, sea-walls and defences against water.
5. Inclosing; straightening of fences; re-division of fields.
6. Clearing; trenching; planting.
7. The provision of cottages or small dwellings, either by means of building new buildings or by means of reconstruction, enlargement or improvement of existing buildings.

8. The erection of farm-houses, offices and outbuildings and other buildings for farm purposes.
9. The erection of saw-mills, scutch-mills, and other mills, water-wheels, engine-houses and kilns, which will increase the value of the land for agricultural purposes, or as woodland or otherwise.
10. Boring for water and other preliminary works in connection therewith.
11. The construction of reservoirs, tanks, conduits, water-courses, pipes, wells, ponds, shafts, dams, weirs, sluices and other works and machinery for supply and distribution of water for agricultural purposes.
12. The erection of jetties, piers and landing-places on rivers, lakes, the sea, or tidal waters for facilitating transport of persons, and of agricultural stock and produce, and of manure and other things required for agricultural purposes.
13. The construction of markets and market-places.
14. The making of farm roads.
15. The provision of drains, pipes, and machinery for supply and distribution of sewage as manure.
16. Restoration or reconstruction of farm buildings damaged or destroyed by dry-rot.
17. Structural additions to or alterations in farm buildings reasonably required, whether the buildings are intended to be let or not, or are already let.

The Agricultural Mortgage Corporation Limited,
Stone House, Bishopsgate, E.C.2.

January 1929.

(II)

AGRICULTURAL CREDITS ACT, 1928 (PART I).

Long-Term Loans on Mortgage.

Improvement Loans.

Question.	*Answer.*
1. How can loans be obtained?	All branches of the Shareholding Banks will be glad to supply information and forms of application for loans. (The names of the Shareholding Banks are printed on the leaflet.)
2. Against what security can loans be granted?	(*a*) Long-term loans against mortgages of agricultural land. (*b*) Improvement loans against rent charges forming a first charge on the lands improved.
3. For what periods can loans be granted?	(*a*) *Loans on Mortgage* for periods not exceeding 60 years. (*b*) *Improvement Loans* for periods up to 40 years, subject to the approval of the Ministry of Agriculture and Fisheries.
4. How much can be advanced on loan?	(*a*) *For Loans on Mortgage* not exceeding two-thirds of the valuation of the land by the Corporation's own Valuer. (*b*) *For Improvement Loans* the whole amount expended, provided the requirements of the Ministry of Agriculture and Fisheries are satisfied.

5. Would a valuation be essential?	The Corporation is bound to have its own certified valuation made at the time the advance is made.
6. Who will make the valuation?	Local Valuers appointed by the Corporation will make valuations in their respective districts.
7. What would be the half-yearly charge per cent. to cover interest and repayment of a loan on mortgage?	*Loans on Mortgage per £100 half-yearly.* 60 yrs. £2 15 0 payable each half-year. 50 ,, £2 17 3 ,, ,, ,, 40 ,, £3 0 11 ,, ,, ,, 30 ,, £3 7 11 ,, ,, ,, 20 ,, £4 3 9 ,, ,, ,, 10 ,, £6 13 8 ,, ,, ,, are the rates at present in force.
8. What would be the half-yearly charge per cent. to cover interest and repayment of an Improvement Loan?	*Improvement Loans per £100 half-yearly.* 40 yrs. £3 0 0 payable each half-year. 30 ,, £3 6 6¾ ,, ,, ,, 20 ,, £4 1 4¼ ,, ,, ,, 10 ,, £6 9 9¾ ,, ,, ,, are the rates at present in force.
9. What does the half-yearly payment include?	Interest on the loan, repayment of the amount borrowed in the number of years arranged, and the Corporation's legal and other expenses.
10. What payment has the borrower to make at the outset?	Cost of valuation, which has to be paid whether a loan is granted or not, and the stamp on the mortgage (2*s*. 6*d*. for each £100 of loan). Scale of Valuation Fees to be paid by the borrower is :— 14*s*. per £100 on first £1,000 valued. 7*s*. ,, ,, next £9,000 valued. 3*s*. 6*d*. ,, ,, the remainder, plus travelling and other out-of-pocket expenses of the Valuers.
11. Can all or part of a loan be repaid at any time?	Though the borrower will not be entitled to repay otherwise than by means of the half-yearly instalments arranged, the Corporation will always be glad to consider earlier repayment on terms to be arranged, having regard to the general circumstances of the Corporation's finance at the time.
12. How will the borrower know how much of his instalment goes in reduction of loan and how much in payment of interest?	The Corporation will issue a statement each year showing the reduction in the loan and the amount of interest paid.
13. How can the borrower recover Income Tax paid on the interest portion of the half-yearly instalment?	The statement referred to above will serve as a voucher for the recovery of Income Tax, and a special arrangement has been made with the Inland Revenue under which the Corporation will furnish a return to the local Inspector of Taxes showing the interest paid by each individual borrower. The appropriate relief in respect of this interest will be allowed in the current assessment.

The Agricultural Mortgage Corporation, Limited,
Stone House, Bishopsgate, E.C.2.

February 1929

INDEX